FINANCIAL TIMES

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Congo conflict
Behind Rwanda's aggressive behaviour
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German company profits
Helping Europe fend off Asian and Russian storms
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Australia
Are the real election issues immigration and race?
Page 4

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When expats ought to pack their bags
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WORLD NEWS

German companies face 'slave labour' lawsuits in the US

US lawyers filed lawsuits against several German companies for allegedly profiting from the use of slave labour during the second world war. Ed Fagan, the New York lawyer who was the first to sue Swiss banks over their treatment of Holocaust survivors' assets, said he was filing suits against groups including Daimler-Benz, Volkswagen, Audi, BMW, Siemens, Krupp-Hoesch and MAN. **Page 3**

Greens take softer line
Germany's Green party, which hopes to become junior partner in a Social Democrat-led government after elections on September 27, softened demands for higher energy prices and opposed a "go-it-alone" pacifist German foreign policy. **Page 3**

Action urged over oceans
Maritime forces should be given the power to act against non-military threats to the security of the oceans, particularly environmental dangers, according to the Independent World Commission on the Oceans. **Page 5**

Norway to ease restrictions
Norway, departing from its increasingly stringent restrictions on alcohol advertising, approved a "limited" exemption for the 1999 World Ice Hockey Championships next May.

Diana remembered
Britain marked the first anniversary of the death of Diana, Princess of Wales, with flowers, prayers and a memorial fountain – but there was no mass outpouring of national grief this time.

Australian campaigning starts
Australia's parties began campaigning for the October 3 general election in a political climate overshadowed by racism and economic woes. **Page 4; Editorial Comment, Page 17**

Oslo PM ordered to rest
Doctors ordered Norwegian prime minister Kjell Magne Bondevik to rest for a week after he announced he was suffering from "depressive reaction from overwork". **Page 3**

...-state Cyprus suggested
...sh Cypriot leader Rauf ... proposed a confedera... states on the island ...awing rejections ...d the island's ...-led government.

...ina floods
...unced a rescue package ... to $120bn in ban... ...elp agriculture and ...bound from this ... devastating floods.

... Indonesia
... flared in three towns in ...sia as anger at deepening ...y, army atrocities and ... government corruption ...ded into rioting.

...Gogh museum closed
...msterdam's Van Gogh museum has closed its doors to the public for nine months as workers moved in to renovate the 25-year-old building.

Sweden faces minority government
Sweden, preparing for a general election in three weeks, faces the prospect of a weak minority government. **Page 3**

US shuts African embassies
The US shut embassies and other facilities in the West African states of Ghana and Togo following "increased threats".

Hainan rail link
China unveiled plans to construct a RMB4.5bn ($543m) rail link to the tropical island of Hainan. **Page 4**

BUSINESS NEWS

Daimler-Benz set for components business shake-up

Daimler-Benz, the world's biggest commercial vehicles maker, is to announce the first step in what could be a radical restructuring of its components activities. At the Hanover truck show, the company will reveal the creation of a new powertrain business combining engine, gearbox, axle and steering manufacturing activities. **Page 19**

The FTSE family of stock market indices is undergoing substantial changes to create a consistent system for industrial sectors covering global markets. **Page 19**

The European Commission approved the non-military aspects of a proposed joint venture between General Electric Company, of the UK, and Italy's Finmeccanica. **Page 24**

Industrial & Financial Systems, Swedish business software group, is targeting potential acquisitions in the UK, Germany and elsewhere in Europe in a bid to accelerate growth. **Page 20**

Interbrew of Belgium abandoned a long-rumoured pursuit of Grolsch, after the Dutch producer of premium beers confirmed it had received a bid approach but rejected the proposal. **Page 22**

Carrier of the US, the world's largest maker of air-conditioners, and Toshiba of Japan have formed a series of joint production and marketing ventures in Europe and Asia, to consolidate their positions in the air-conditioning sector. **Page 18**

Chancellor Media, US radio, television and billboard group, has completed its strategic buying spree, with a $930m deal to take over Whiteco, the US's largest privately held outdoor advertising company. **Page 20**

PartnerRe, the Bermuda-based reinsurer, will double the size of its business with the $750m acquisition of the reinsurance activities of Winterthur. **Page 22**

Japan's long-term market interest rates plunged to a new low as economic data suggested that the government's "stimulus packages" were failing to invigorate the world's second largest economy. **Page 18; Japan's silent losers, Page 17**

Taiwan barred all securities and investment trust companies from selling or buying hedge funds linked to international financier George Soros. Investors have also been asked not to buy the funds, which Taiwan's Securities and Exchange Commission said lacked government protection.

Sakura Bank, one of Japan's largest, said it would ask its business partners in the Mitsui *keiratsu*, or corporate family, for a Y300bn ($2.1bn) capital injection to boost its financial strength. **Page 20**

Astra International, Indonesia's biggest car producer, responded to a first-half loss of Rp7,360bn ($657m) with promises to lift exports, divest shares to its partners and sell one subsidiary for $90m. **Page 22**

The auction of the bankrupt Kia motor group, South Korea's third largest carmaker, appeared to have collapsed amid allegations of favouritism. **Page 19**

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. **Page 27**

Chernomyrdin to soldier on despite rejection by Duma

By Chrystia Freeland in Moscow

Russia's political crisis deepened yesterday when parliament resoundingly rejected the nomination of Victor Chernomyrdin as prime minister.

Mr Chernomyrdin, who is backed by President Boris Yeltsin, said he would soldier on in spite of parliament's opposition. He remains acting prime minister and said he would name an acting cabinet today.

But parliament's rejection will force Mr Chernomyrdin and his team into political limbo, weakening the government's hand as it struggles to cope with mounting economic woes.

The continuing political turmoil will form an unwelcome backdrop for President Bill Clinton, due to arrive in Moscow today. Before leaving, Mr Clinton told US schoolchildren: "If Russia will stay on the path of reform, I believe America and the rest of the west should help them."

But it is not clear what sort of help Mr Clinton and the leaders of the other Group of Seven industrialised nations are willing or able to provide.

The Kremlin had hoped that Mr Chernomyrdin, a centrist who was prime minister for five years before being sacked this spring, would be a stable, consolidating force amid the turmoil.

But those expectations were dashed yesterday when the Duma, the lower house of parliament, humbled Mr Chernomyrdin with the lowest level of support a prime ministerial nominee has received in Russia's brief post-communist history. The rejection came in spite of warnings from Mr Chernomyrdin and the Kremlin that, without a legitimate cabinet, Russia risked slipping deeper into the economic abyss.

"Russia today is, in essence, on the verge of political and economic breakdown," Mr Chernomyrdin said. "Russia should not be without a government."

Mr Chernomyrdin also disclaimed responsibility for the current crisis. "I did not make any announcements of devaluation or a moratorium on the payment of government debts. That was a mistake. Today it is not yet too late. Today we can still formulate a reasonable policy for the exchange rate."

These arguments failed to convince a parliament trying to use the chaos to assert a more powerful voice. The Duma, a constitutionally weak body that has generally caved in to the Kremlin, is demanding vast political and economic concessions, including the president's resignation.

The Kremlin has already renominated Mr Chernomyrdin again to parliament. A vote must be held by next Monday, but Mr Yeltsin has the right to ask for a third vote on the nomination. If parliament rejects Mr Chernomyrdin both times, the president can unilaterally appoint the prime minister, dissolve the parliament and call fresh elections.

In the interim, reformers and western officials are hoping Mr Chernomyrdin will call on Boris Fyodorov, a former minister of finance and investment banker, to propose a radical programme of structural reforms.

However, Mr Chernomyrdin may be tempted to steer a more ambivalent course in an effort to win the support of the legislature on its next vote.

The political battles are complicated by the weakness of Mr Yeltsin. Thanks to his vast constitutional prerogatives, in the past Mr Yeltsin has ruled unchallenged. But now both the leftist opposition and the business establishment are pushing the president to surrender some of his powers, arguing that the ageing leader is not up to coping with the current crisis.

Asset seizing considered, Page 2
'Unstoppable inflation', Page 2
Lex, Page 18

Feeling the strain: Mr Chernomyrdin at the Duma yesterday Reuters

N Korean test missile fired hours before talks on sanctions

By John Burton in Seoul and Michiyo Nakamoto in Tokyo

North Korea yesterday test-fired a ballistic missile aimed towards Japan in a move seen as a bargaining tactic in negotiations with the US on lifting economic sanctions.

The test provoked an angry reaction from Tokyo, which refused to endorse its financial assistance for a North Korean nuclear power project.

The missile, which Seoul identified as the new Daepodong-1 model with a range of 1,200 miles, was fired hours before North Korea and the US were expected to resume talks in New York. A US Pentagon official described the launch as "a serious development".

A Japanese defence official said the missile appeared to have two stages, with the second probably flying over the northern tip of Japan's main island and landing a few hundred miles off its Pacific coast. The first stage apparently dropped into the Sea of Japan between the Russian port of Vladivostok and Hokkaido.

Hiromu Nonaka, Japan's chief cabinet secretary, said the missile launch was "regrettable with regard to Japan's future relations with North Korea".

North Korea has reportedly demanded the US should pay it $500m for suspending its missile programme. With its economy collapsing, Pyongyang recently claimed missile sales were necessary to raise funds because of the US economic sanctions.

The missile programme is among the issues expected to be discussed in New York. According to the South Korean foreign ministry, North Korea was using the test as a negotiating ploy.

The talks will also focus on the implementation of a 1994 accord under which North Korea agreed to freeze its nuclear weapons programme in return for the supply of two light water nuclear reactors of no military use.

The consortium, including the US, South Korea, Japan and the EU, that will build the reactors had agreed yesterday on financing for the $4.6bn project. But last night, in response to the test, Tokyo refused to sign the cost-sharing agreement.

Global markets hit by further turbulence

By Steve Thompson in London and John Labate in New York

The world's stock markets were hit by further gloomy news from Russia and Asia yesterday, with the Dow Jones Industrial Average falling back below 8,000, relinquishing its gains for the year.

An hour before the close of trading in New York, the Dow and the Nasdaq composite were each below their starting points for 1998. The Dow was down more than 300 points – or 3.8 per cent – while the Nasdaq Composite had plunged nearly 7 per cent, as the slide in technology stocks continued.

London's stock market, Europe's biggest, was closed for the August bank holiday, and the absence of some of the big international funds, because of the holiday, took some of the selling pressure out of Europe's markets.

Far Eastern markets remained extremely nervous with Hong Kong, Australia, Taiwan and Thailand all under pressure, but Tokyo and Seoul managing to gain ground. Tokyo's Nikkei 225 index rose 192.26, or 1.4 per cent, to 14,107.

An early attempt at a rally on European markets foundered as sellers reappeared. Wall Street, which fell 5.6 per cent last week, gained ground at the outset of trading yesterday, adding 40 points in quick time, but then dropped steeply, posting another three-figure decline within an hour of the opening and falling below the 8,000 level in the process.

Germany's Xetra Dax index, which lost 3.3 per cent last week finished yesterday's session a further 2.8 per cent lower, closing 114.52 down at 4,811.28.

France's CAC 40 settled 50.86, or 1.4 per cent, off at 3,658.11, extending last week's 6 per cent slide. Switzerland's SMI index dropped 107.5, or 1.6 per cent, to 6,679.4 and Russia's RTS index 1.15, or 1.7 per cent, to 65.62.

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Lex, Page 18

Hang Seng falls 7% as intervention halts

Hong Kong's benchmark Hang Seng index fell 7.08 per cent yesterday after the government halted the estimated US$14bn stock market buying spree it launched a fortnight ago. But the Hong Kong Monetary Authority, which has been orchestrating the share purchases to bring stability to the markets, has said it reserves the right to return to the markets. **Report, Page 4; Big crisis, Page 16**

BP Amoco opts for investment caution

By Robert Corzine

BP Amoco will adopt a more cautious stance towards investment in emerging markets, according to Sir John Browne, chief executive-designate of the oil group to be created by the planned takeover of Amoco by British Petroleum.

The new company "will not invest to defy reality", Sir John said in an interview. Although BP Amoco would not withdraw from emerging markets, "we may lengthen the investment cycle, especially when economies are shrinking", he said.

International oil companies are among the biggest direct investors in emerging markets, and any significant reduction in that investment would compound the economic problems being experienced by many such countries.

Sir John said BP Amoco's strategy was to focus initially on the mainly industrialised markets of member countries of the Organisation for Economic Co-operation and Development.

"You get smaller growth but over a gigantic base," he said. Sir John also emphasised the "quality of earnings" in the developed world.

That meant BP Amoco could selectively target investments in emerging markets "from a very solid base".

He suggested BP Amoco's capital investment would continue to be divided along the lines of one-third to the US, one-third to Europe and one-third to the rest of the world, averaged over the economic and commodity cycles.

Sir John said: "We have enough in Russia", where BP has a 10 per cent stake in Sidanco, and where Amoco has been trying to build a presence for some years.

Amoco's efforts in Russia were now in "abeyance".

BP had been seen as a potential bidder for Rosneft, the last big state-owned Russian oil company due for privatisation.

Although BP had said it might be keen to acquire some Rosneft assets, such as interests on Sakhalin Island in the Russian Far East, BP Amoco had already secured its main "long-run position" through the acquisition of a large stake in an East Siberian gas field, which would not require big investments for years to come.

BP Amoco would, however, devote management resources to improving the efficiency of Sidanco, which he said had the potential to become a well-run company.

In China, Sir John said BP Amoco had a good position from which to grow "as and when" economic conditions improved. The Chinese "could do a lot" without foreign help, although he thought the present uncertainty might improve the prospects of future foreign investors.

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WORLD MARKETS

STOCK MARKET INDICES		
New York		
...w Jones Ind Av	[illegible]	(–164.00)
...SDAQ Composite	1562.96	(–76.72)
...ope and Far East		
...40	3638.78	(–70.19)
[illegible]	4803.89	(–159.65)
[illegible]	14107.89	(+192.26)
...ERLING RATES		
...al Funds	5.9375%	
...th Treas Bills Yld	4.87%	
...ng Bond	102...	
...ield	5.33%	

GOLD		
New York Comex		
(Sep)	$275.1	(274.8)
EXCHANGE RATES		
Sterling		
New York 1.676		
Dollar		
New York lunchtime		
DM	1.7886	
FFr	5.9915	
SFr	1.446	
Y	141.3	
Tokyo close		Y 141.4
London markets closed		

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Stay away, Taiwan warns currency speculators

By James Kynge in Beijing and William Lewis in New York

Taiwan issued a sharp warning yesterday that foreign currency speculators such as George Soros would find "no quarter" to operate in domestic currency markets, after newspaper reports that the US financier was stalking the local dollar amid the current atmosphere of unease in emerging markets.

"The central bank will stringently monitor the foreign exchange market so that such speculators will find no quarter to operate here," said Chou Ah-ting, the chief of the foreign exchange department in Taiwan's central bank.

He said the central bank had found no evidence to support rumours that funds controlled by Mr Soros had entered the local foreign exchange market. Mr Chou added, however, that the bank would maintain its monitoring of local markets to check whether Mr Soros or unauthorised foreign funds were active.

Mr Soros yesterday declined to comment. People close to the group said that it was seeking to establish full details about the Taiwanese central bank's statements. But the move is the latest emerging markets blow to hit the Soros group of funds.

Last week George Soros's investment funds admitted to losses of up to $2bn as a result of the Russian economic crisis. Other funds have also admitted Russian loses, although not as big.

Reports in Taiwanese newspapers said the Quantum fund, operated by Mr Soros, had been raising business from Taiwanese clients since early this year. Authorities, however, said that neither Quantum nor Quota, another of the financiers' funds, had gained approval for local business from Taiwan authorities.

Taipei has erected considerable barriers to speculative attacks on the Taiwan dollar. In May, the central bank virtually shut down trade of futures instruments used to pressure the local currency. In addition, inflows of funds destined for the stock market are also subject to central bank approval, allowing the authorities to influence demand for the currency.

Mr Soros has denied that his funds have been the driving force behind speculative attacks on south-east Asian currencies in the last year. But the criticism he has drawn from some regional leaders, especially Mahathir Mohammad, Malaysian premier, has made him a focus of suspicion.

Official Chinese newspapers yesterday also mentioned his name in connection with the mounting pressure on the Hong Kong dollar's peg with the US dollar. But the reports did not offer any evidence that Mr Soros had been involved.

The disclosure of losses by his investment funds as a result of the Russian crisis came after Mr Soros wrote a letter – published in the Financial Times last month – which called on the Russian government to introduce a currency board after a modest devaluation.

Other hedge funds have also been hit by the Russian crisis with at least three US-based funds having filed for Chapter 11.

RUSSIAN DEBT MORATORIUM LEGALITY MAY FACE INTERNATIONAL COURT CHALLENGE

Creditors 'ponder seizing Russian assets overseas'

By John Thornhill in Moscow

Some western creditors are believed to be considering seizing Russian banking assets held overseas, in retaliation for the country's 90-day moratorium on some forms of debt. Others may challenge the legality of the moratorium in the international courts.

Western creditors are pressing the Russian government to lift the moratorium on local entities repaying foreign debt obligations. They claim the payment freeze is harming many individual borrowers and the country's overall reputation in international financial markets.

Banking analysts suggest the moratorium affects more than $700m of syndicated loan payments that become due within the 90-day period, as well as an estimated $10bn of forward dollar contracts.

On August 17, the government froze foreign debt repayments as part of the government's anti-crisis measures.

The logic was that Russian banks would have 90 days to sort out their collective liabilities and renegotiate payments where necessary, thereby preventing a systemic collapse of the banking system.

> 'There is no one to negotiate with, there is no government, the central bank is in hiding. . .'

The central bank invited foreign creditors to a meeting in Moscow the following week and asked them to form a committee to discuss the repayments issue. But bankers involved in these talks said they had made little progress.

"As far as negotiating with anyone here is concerned there is no one to negotiate with," said one banker. "There is no government, the central bank is in hiding, and we are waiting to see what if anything happens on the political front."

Max Gutbrod, a partner at Baker & McKenzie, the US law firm which represents several foreign creditors, said some foreign banks had begun to challenge the legality of the central bank's move because there had been no official instruction introducing the moratorium.

"There is no likelihood that things will be any better in three months when the moratorium ends and all that will have happened is that the difficult task of sorting out which are the good banks and which are the bad ones will have been postponed," Mr Gutbrod said.

The central bank has begun taking action to restructure the banking industry and is encouraging a string of mergers, which could produce bigger and better-capitalised banks.

It is pressing parliament to approve legislation to nationalise SBS-Agro, the biggest commercial retail bank, although this move has been opposed by the bank itself.

Margot Jacobs, a banking analyst at United Financial Group, a Moscow-based stockbroker, said some solvent Russian entities were seeking to make repayments in defiance of the moratorium: Such banks did not wish to harm their future credit ratings.

She forecast that the moratorium might collapse anyway.

"I think that most western creditors believe it is not the government's position to get involved in a contract between two commercial entities," she said. "And those Russian entities that can pay want to pay."

'Unstoppable wave of inflation' on the way

By Chrystia Freeland in Moscow

For all the turbulence in Russia over the past few weeks, economists and businessmen warn that, for ordinary Russians, the worst is yet to come.

The biggest disaster in waiting is a wave of high inflation which economists predict is about to come crashing down on the country, no matter what measures the squabbling government takes. "We are now in the calm before the storm," says Al Breach, an economist at the Russian European Centre for Economic Policy, a Moscow think-tank. "For now, while the foreign exchange market has broken down, the wave of inflation is held back. But, ultimately, it is unstoppable."

Mr Breach estimates that, even if the Kremlin were to revert to absolute monetarist orthodoxy starting today, Russia would inevitably face an escalation of annual inflation to at least 30 per cent by the end of the year. Such a rise would be spurred on by higher import prices due to the rouble's devaluation and soft money that has already flooded into the economy.

Mr Breach believes the central bank doled out more than Rbs33bn ($3.8bn) worth of soft credits last month, supplying further fuel for the inflationary engine.

But these problems are likely to be overshadowed by an even more menacing spectre: The consensus shared by most of Russia's economic and political establishment is that in the near future the government must flood the economy with an even larger wave of inflationary credits.

"I think that now inflationary credits are unavoidable," says a senior Russian banker and former member of the government reform team. "Inflation will rise by the day. The next few days will be psychological shock therapy for the nation as it realises how serious the economic crisis is."

One cause for this future wave of inflation will be the government's need for money to pay its own bills. The state's access to foreign capital has been frozen by August's effective default on treasury bills. Raising money through taxation will also be difficult, both because the country's payments system is all but paralysed and because economic chaos is likely to further weaken Russia's already feeble tax collection efforts.

"Physically, the government cannot collect taxes," Mikhail Berger, the editor of Sevodnya, a Russian daily, explains. "The only way for the government to get money is by issuing credits or printing roubles. I've always been an enemy of inflation, but I now think there is no alternative. The government has no other sources of money."

A second voice in the inflation lobby is industry, which hopes a wave of inflation will wash away the arrears – to workers, other companies, the government – which have hamstrung the Russian economy.

"Soft credits are now unavoidable," argues Joseph Piradashvili, manager of a gas exploration company. "I realise that would create inflation, but right now that is the lesser evil."

Russians queue outside a bank yesterday. Many savers have decided their money would be safer elsewhere Reuters

Kohl's call for measures backed by world leaders

By Peter Norman in Bonn

"Dangerous and important." With these words, Helmut Kohl, the German chancellor, yesterday summed up his "great concern" about the crisis in Russia after talking with other world leaders.

Mr Kohl, who telephoned US President Bill Clinton, Russian President Boris Yeltsin and Tony Blair, the British prime minister, at the weekend, stressed that Russia must take the necessary measures for a lasting solution to the crisis.

According to Otto Hauser, the German government spokesman, the other leaders "emphatically supported" the chancellor's assessment. Mr Kohl was also due to telephone Jacques Chirac, the French president, Victor Chernomyrdin, the Russian prime minister designate, and other partners in the European Union and Group of Seven leading industrial countries. Mr Clinton is due to meet Mr Yeltsin today at the start of a two-day summit in Moscow.

Speaking after a meeting of his Christian Democratic Union, Mr Kohl underlined that Russia could not expect financial help from the International Monetary Fund or elsewhere without implementing promised reforms.

Theo Waigel, Germany's finance minister, yesterday added that Russia could only restore faith in its financial markets through the "determined implementation" of measures agreed with the IMF.

Stepping up the pressure on Moscow, the German government later made clear that Russia would obtain the next $4.8bn tranche of IMF credits this month only if its IMF reform programme were revised to reflect recent turbulence.

Mr Hauser said Mr Kohl, in all his talks, stressed that Russia's stability and the continuation of political and economic reforms were "of fundamental importance for developments in Europe and the world".

Russia is also of growing significance in the chancellor's general election campaign. Peter Hintze, the CDU's general secretary, yesterday described Mr Kohl as "an anchor of stability" in an uncertain world.

Elsewhere, Horst Köhler, new president of the European Bank for Reconstruction and Development, warned yesterday that the euphoria that followed the collapse of communism in the early 1990s should not give way to "timidity or pessimism".

Retreat from Moscow takes investors back to German safe haven

Living with the euro

Flight to Bunds suggests which bond will be the euro benchmark, write **Edward Luce** and **Vincent Boland**

When you can't stand the heat, get into the Bund market. Investors watching Russia stumble to the brink of financial collapse in the past few days did what they always do in a crisis – they bought German government bonds (Bunds) in search of the safest haven for their money.

Although US Treasury bond prices have also surged in response to the Russian meltdown, the most dramatic effect has been seen in the German market.

The yield on all maturities of German Bunds, from two-year to 30-year bonds, has hit record lows over the last week, with the 10-year benchmark dropping to a yield of just 4.2 per cent – a postwar record. In contrast, investors have generally spurned French and Italian government bond markets.

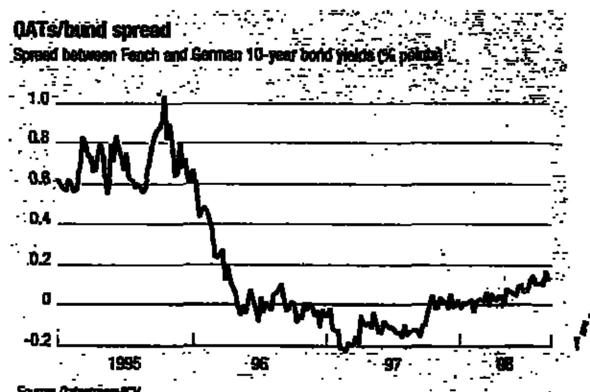
"This should put an end to all argument about which government bond will be the benchmark in euros after European monetary union," said Kirit Shah, chief market strategist at Sanwa International in London. "The benchmark in euros will be German government bonds."

The degree of investor bias towards Bunds has been dramatic. Before the Russian crisis, German government bonds actually traded at a spread (risk premium) over their French government counterparts of between 5 and 10 basis points (a basis point is a hundredth of a percentage point).

This was partly due to the fact that the French government provided tax breaks to French insurance companies which put their money in the French government bond market. These incentives were removed earlier this year, prompting many French fund managers to switch their investments into the French stock market.

More important, though, the scramble for safety in the last few weeks has shown the extent of investor preference for German bonds. The French government benchmark now trades at a significant spread to its German counterpart. The Italian government bond has widened even further from a spread of 23 basis points over Bunds earlier this year to almost 60 basis points at one point last week.

"Bunds were the big beneficiary when this [Russian] crisis started because, when all is said and done, Germany is the best credit risk in Europe," said Philip Tyson, bond strategist at HSBC Markets.



Source: Datastream/ICV

That will not be a welcome development for France, which has been pushing the claims of the OAT market for benchmark status. French officials – and French bankers – maintain the OAT market is more liquid and transparent than the Bund market and that its auction system is the most sophisticated approach to supplying new stock to investors.

Benchmark status matters for Paris, which is in danger of being sidelined by both London, which is Europe's financial capital, and Frankfurt, which is home to the new European central bank. The new Anglo-German stock market alliance makes that isolation more acute.

Being the benchmark market also offers the prestige of being able to influence the direction and role of Europe's debt markets, an increasingly important area of the continent's single capital market created by the euro.

However, much of the activity in government bonds is driven by what happens in the futures markets, where investors buy and sell contracts to deliver bonds at a certain future date. In this area, the Bund market was the clear winner last week.

Turnover in bund futures exceeded 800,000 contracts a day once or twice last week as investors switched into Germany from more peripheral markets such as Spain and Italy.

In contrast, the French bond future has remained stuck on a daily turnover of just over 100,000. A future is a contract which is based on an underlying benchmark such as a government bond. It is generally used to hedge investor risks.

"The bund futures contract is clearly the most liquid, and last week investors were looking for liquidity," said Lorenzo Codogno, head of European economics at Bank of America.

However, a large part of the price rise was caused by a technical squeeze in the Bund market ... were not en[ough] Bunds available ... market to cover them in the futu[res] ...

Some observer[s] ... squeeze threw ... relief the shortc[omings of] the Bund marke[t as a] benchmark for th[e] ... operate as a bench[mark]. [In] other words, there ... plenty of supply because of budgetary ... Germany in advance of ... there are not enough b... to go around.

"The technical squee[ze] demonstrated that the Bun[d] is not necessarily going to be the best benchmark if it is going to be knocked about by these types of factors," said Glenn Davies, bond strategist at Crédit Lyonnais.

Some analysts suggest that only a basket of several European government bonds could provide the liquidity to serve as an effective benchmark. Whatever the answer, the markets still clearly see Germany as the safest credit in Europe.

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ECB governors unlikely to change monetary policy

ECB watch

Memories remain of knee-jerk cuts in 1987, when boom-bust cycles were worsened, **Wolfgang Münchau** writes

What Asia has failed to achieve in the last year, Russia has done in just a few weeks. European economists are finally beginning to worry about the contagious spread of the global financial crisis and its impact on the European economy.

For the first time, economic analysts are holding out the prospect of a European interest rate cut. Previously, the consensus had been that short-term interest rates for the euro-zone would be higher than the current rates of Germany and France of 3.3 per cent.

In a forecast typical of current market sentiment, Deutsche Bank said it would stick to its central scenario of year-end rates of 3.5 per cent, but admitted the chances were rising that rates might not change at all. "The deterioration in the emerging markets has led us to introduce a risk scenario (40 per cent probability) where the ongoing crisis has a significant impact on growth in the euro-land area," the bank said in its latest euro publication.

What will the governors of the European Central Bank and the various national central banks do? Presumably not much. The 17 governors meet today for their regular monthly session, but they are unlikely to signal a shift on monetary policy.

Privately, ECB officials seem to be cautious about the hypothetical link between events in Russia and Asia and the interest rates of Europe. A decline in European stock market values will not by itself influence monetary policy except through its direct effect on economic growth. Memories are still fresh of the 1987 stock market crash, which led some governments and central banks into knee-jerk interest rate cuts, despite evidence of unsustainable monetary growth. Monetary policy itself exacerbated the boom-bust cycle in some countries, especially the UK.

Economic indicators for euro-11 countries

	Jun 1998	May 98	Apr 98	Mar 98	Feb 98	Jan 98	1997	1996
Inflation (annual % change)†	1.4	1.4	1.4	1.2	1.2	1.1	1.6**	2.2**
Unemployment (%)	11.2	11.3	11.3	11.3	11.4	11.4	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	n/a	71.3	63.3	58.2	758.6	667.7
Imports	n/a	n/a	n/a	63.5	58.1	57.6	668.3	594.2
Trade balance	n/a	n/a	n/a	7.8	5.2	0.6	90.2	73.5

	Feb-Apr/Nov-Jan	Jan-Mar/Oct-Dec	Dec-Feb/Sep-Nov	Nov-Jan/Aug-Oct	1997	1996
Industrial production (%) (3 mo over previous 3 mo)	1.3	1.3	1.2	1.1	4.2††	-0.2††

GDP growth (%)	Q1 1998	Q4 1997	Q3 1997	Q2 1997	1997	1996
Over same quarter last year	3.5	3.0	2.7	2.9	2.5	1.6

* provisional ** estimated † estimated due to Ireland, which provided figures for 1997 but estimated monthly †† annual % change Source: Eurostat

European interest rates are already near their postwar lows. This is the normally the time in the business cycle when a central bank starts to tighten policy to counteract capacity shortages in the medium term. The monetary conditions of the euro-zone – no matter whether one looks at monetary aggregates, direct inflation forecasts, or a wider mix of data – continue to point towards a moderate tightening of policy in the medium term.

The ECB is therefore likely to remain more concerned about inflation than about deflation, unless and until the data point in another direction.

● Annual consumer price inflation for the euro-zone was 1.4 per cent in July, the same as June, said Eurostat, the European Union statistics office.

The difference between countries with low and high inflation has been widening further during the mon[th]. France and Austria had lowest inflation rates, a[t] ... per cent, while Portuga[l] the highest, 2.8 per cent.

If the July inflation had been used to select members of economic a[nd] monetary union, four countries would have failed to meet the inflation test of the Maastricht Treaty: Italy, Spain, Portugal and Ireland. Their rates have more than the allowed 1.5 per cent deviation from the average of the best three.

● The European Central Bank yesterday called for tough restrictions on issuers of electronic money products, such as pre-loaded cash cards. The recommendations are intended to prevent electronic money from turning into a rival monetary unit.

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Greens take softer lines as poll nears

By Ralph Atkins in Bonn

Germany's Green party, which hopes to become junior partner in a Social Democrat-led government after the election on September 27, yesterday softened its demands for higher energy prices and opposed a "go-it-alone" pacifist German foreign policy.

Unveiling a priority list for the first months of a new government, Gunda Röstel, one of the Green's national leaders, claimed a "high degree of overlap" with the 100-day programme set out by Gerhard Schröder, the SPD's chancellor candidate.

Although the Greens still back closing nuclear power stations "as soon as possible" and advocate offering heroin to severe drug addicts, the tone marked a substantial turnaround for the environment party since March.

Then, a conference in Magdeburg backed an eventual tripling of petrol prices to DM5 ($2.70) a litre and opposed the deployment of German troops abroad.

From a peak of more than 10 per cent at the beginning of the year, the Greens' opinion poll rating has tumbled to close to the 5 per cent hurdle set to exclude extremists from the Bundestag, or parliament.

However, the Greens' credibility may have been given an unexpected boost by Mr Kohl, who in an interview last week paid tribute to those Greens who held "conservative values". He praised Joschka Fischer, the most prominent of the Green's leaders and possible foreign minister under Mr Schröder, as a "gifted" politician.

Mr Kohl's comments heightened speculation that the CDU might even seek to forge a coalition with the Greens, particularly if the small Free Democrat party, junior partner in the existing government, failed to jump the 5 per cent hurdle on September 27. Subsequently, however, the CDU has dismissed the possibility: Peter Hintze, party general secretary, yesterday said such a deal was "light years away". He criticised the Greens' election priority list as "a shock programme for Germany".

Like the SPD, the Greens' priority programme backed an "alliance for jobs" to tackle unemployment. It called for a "socially just", revenue-neutral tax reform which would finance a cut in the basic rate of income tax from 25.9 per cent to 18.5 per cent through a broadening of the tax base and a greater emphasis on wealth taxes.

On ecological taxes, the Greens set as "a first step" an agreement on energy taxes at the European Union level. Increased petrol taxes would be subject to negotiation in coalition talks, Ms Röstel said. Greens would use proceeds from ecological taxes to fund a cut in social insurance contributions.

Jürgen Trittin, another spokesman, envisaged "no great problems" working with the SPD in foreign policy . The Greens rejected leaving Nato because the country could not "go it alone".

Swedish Centre party warns left and right

By Tim Burt in Stockholm

Sweden, preparing for a general election in three weeks, is facing the prospect of a weak minority government after a warning from the country's Centre party that neither the ruling Social Democrats nor the opposition Moderate party could rely on its support to form a new administration.

Lennart Daleus, leader of the Centre party, told the Financial Times he would campaign for a non-socialist government – in effect tearing up his party's informal four-year alliance with the Social Democrats.

Mr Daleus, who took over as party leader only in June, also said deep policy differences with the Moderate party led by Carl Bildt, former prime minister, could undermine attempts to form a centre-right coalition.

"We have stated very clearly that we want a new and different government," he said in an interview. "Our co-operation with the Social Democrats is at an end, but we have reservations about the Moderates."

In the absence of support from the Centre party, Swedish economists fear the Social Democrats could be forced into a reluctant alliance with the former communist Left party, which has seen its support rise to almost 11 per cent in recent opinion polls.

"It is quite probable that we will see a rather messy negotiating game after the election," said Kals Eklund, chief economist at Skandinaviska Enskilda Banken.

Even if the Social Democrats forged an alliance with the Left – who economists fear would demand an end to public spending restraint – current polls suggest it would fall short of a 175-seat majority in parliament. Similarly, a coalition of non-socialist parties including the Moderates and Centre would be unlikely to muster much more than 160 seats.

Most analysts predict the September 20 poll will result in an SDP minority government.

Mr Daleus, however, said he would campaign for a centrist government of the Centre, Christian Democrats and Liberal parties – which would endorse the Centre's policy of decommissioning Sweden's nuclear power stations and its scepticism towards European economic and monetary union.

Mr Daleus declined to say whether the centre would bury its differences with the Moderates to block a Social Democrat-Left axis.

● Erik Asbrink, finance minister, yesterday said the Social Democratic party would take part in cross-party talks on income tax reform after the election.

Although the SDP manifesto has played down the prospect of tax cuts, Mr Asbrink predicted talks on possible reforms would begin this autumn.

"It is too early to say whether there will be any agreement, and any tax cuts that lead to overheating are not desirable," he said in an interview.

Oslo PM ordered to rest for a week

By Valeria Sköld in Oslo

Kjell Magne Bondevik, the Norwegian prime minister, yesterday announced he was suffering from "depressive reaction from overwork" after mounting criticism of his government's economic policy and sharp swings in the value of the krone.

Doctors have ordered Mr Bondevik – who heads a weak centre-right coalition – to take a week's sick leave.

The unprecedented move comes a week after Norway's central bank abandoned its defence of the krone after increasing interest rates seven times this year.

The prime minister's illness also follows a sharp decline in the Oslo Totalindeks, by more than 20 per cent in August, and political infighting over the forthcoming annual budget.

Opposition parties and leading Norwegian economists have blamed Mr Bondevik's administration for failing to prevent overheating in the economy, which has been hit by sharply lower oil revenues and excessive wage increases.

Anne Enger Lahnstein, culture minister and leader of the Centre party, will assume his duties.

Mr Bondevik, an ordained priest, has postponed a planned official visit to Egypt, Israel and the Palestinian area next week.

Forced labourers of the Third Reich make themselves heard

Demands for compensation for slave labour in German factories during the war are growing louder, but companies say Bonn should pay, reports **Graham Bowley**

Heinrich von Pierer, a German industrialist, told rowdy protesters outside his company's 150th anniversary celebrations in Berlin last autumn that he would not pay compensation to slave labourers who toiled in his factories during the second world war.

But, one year on, the demands for retribution have only grown louder. Captains of industry, like Mr von Pierer, the head of Siemens, are being forced to peer into their companies' past to address their role in Hitler's war machine.

One source of pressure is provided by Klaus von Münchhausen, a university lecturer from northern Germany backed by an anonymous sponsor, who is championing the cause of slave labourers, or *Zwangsarbeiter*, forced to work in factories in wartime Germany.

Mr von Münchhausen has already forced two companies to pay former slave labourers, and says more will cave in soon.

There have been big payouts in other war-related cases. Last month Swiss banks paid $1.25bn to settle legal claims linked to their wartime role. Five European insurers, among them Allianz of Germany, have agreed to a commission to work out what they owe in unpaid insurance claims taken out by Holocaust survivors.

But the spotlight is now switching more directly on to Germany. The country's two biggest commercial banks – Deutsche and Dresdner – face an $18bn lawsuit filed by Holocaust survivors in the US. Last week, Degussa became the first big German industrial company to face legal charges when it was hit by a US lawsuit alleging it made Zyklon B poison gas used in concentration camps.

Several industrialists openly admit that their corporate predecessors used prisoners in their factories. However, they say they paid wages which were then confiscated by the Nazis. Some, like Daimler-Benz and Siemens, offered some compensation in the 1950s and 1960s. But companies deny they are now legally obliged to pay more – they argue that responsibility lies with the present government since it is, they say, the legal heir to the Nazi regime.

Bonn however rejects this argument. Chancellor Helmut Kohl thinks any demands for unpaid wages or compensation are the business of individual companies. He believes the government – which has paid out more than DM100bn ($55bn) for victims of the Nazis, although none directly for slave labour – has done enough.

But this is where Mr von Münchhausen comes in. Last year he found a chink in the government's armour when a Bonn court ruled that it should pay back-wages to a Hungarian woman who had worked in Auschwitz. The judge ruled that she was entitled to money because she had so far received no other compensation for her time in the concentration camp.

Now Mr von Münchhausen says he is getting calls from many other *Zwangsarbeiter*. On behalf of one group of prisoners, he approached Diehl, a Nuremberg-based machinery maker, which agreed to set up a fund to pay its former workers.

His biggest scalp so far is Volkswagen. The car group agreed to set up a fund for Nazi victims who worked at its Wolfsburg factory. VW said it had no legal responsibility to pay but it said it felt an "historical and moral responsibility".

Mr von Münchhausen says he is now talking to other companies, including Hochtief, the building group, Bosch and Siemens. One solution, he says, is for industrialists to establish a joint fund, to which they would contribute.

Several companies – including BMW and Daimler-Benz – have said they would be willing to take part in a national fund, if it is backed by the government.

"They say to me, we could pay into this German fund but then we would immediately be open to a law process in the US," Mr von Münchhausen says.

The government's position, however, may not be fixed in stone, despite Mr Kohl's opposition to the use of public funds. Gerhard Schröder, the Social Democrat challenging Mr Kohl in next month's elections, also sits on VW's supervisory board, and favours a national, government-backed fund. If he wins, companies might suddenly find themselves under even greater pressure to compensate for the sufferings of their wartime employees.

Lawsuits filed in US court against leading German companies

By Graham Bowley in Frankfurt and John Authers in New York

US lawyers yesterday filed lawsuits against several leading German companies for allegedly profiting from the use of slave labour during the second world war.

Ed Fagan, the New York lawyer who two years ago launched the first lawsuit against Swiss banks over their treatment of Holocaust survivors' assets, said he was filing suits in a US court against the German companies including Daimler-Benz, Volkswagen, Audi, BMW, Siemens, Krupp-Hoesch and MAN.

The action could set a precedent for other legal moves on behalf of survivors of factories used in the Nazi war effort and will increase public pressure on German companies.

Last week two other leading US lawyers, Michael Hausfeld and Melvyn Weiss, who took the lead in negotiating last month's $1.2bn settlement from the Swiss commercial banks on behalf of Holocaust survivors, said they were preparing law suits against several companies on behalf of former prisoners.

Mr Fagan said the claims would be directed at seeking compensation not for back-wages that should have been paid to workers but rather for the profits that companies gained from exploiting slave labour.

HONG KONG THE CENTRAL BANK RESERVES RIGHT TO RESUME INTERVENTION IF STABILITY UNDER THREAT

Authorities retreat from stock market

By Louise Lucas in Hong Kong

The Hong Kong government yesterday retreated from the stock market, prompting a 7.08 per cent plunge on the benchmark Hang Seng index, just two weeks after it launched an estimated US$14bn buying spree.

Brokers spotted scant evidence of government intervention yesterday and said any buying conducted on its behalf would have been minimal. Instead, the floor was left clear for traders to reap profits by dumping stock and buying the discounted futures contracts.

Turnover was HK$6.57bn (US$848m) down from the record HK$79bn notched up on Friday, suggesting much of the big institutional selling had already been completed during the past two weeks. However, the retreat of the Hong Kong Monetary Authority, the *de facto* central bank that has been orchestrating the government share purchases in a bid to bring stability to the markets, is expected to be temporary.

The HKMA has said it reserves the right to return to the markets when it feels stability is threatened. Its original foray was designed to frustrate of speculators who attacked the Hong Kong dollar and profited on the subsequent fall in the stock market through positions in the futures market. Brokers welcomed the retreat, which came against a background of further uncertainty in Russia and tumbling markets across Asia. The Thai market closed down 3.7 per cent, and Malaysian and South Korean shares lost 3.4 per cent.

Kent Rossiter, director at Nikko Securities Company, said yesterday's retreat suggested the government was aiming for a soft landing.

"It is probably the right move to let the market correct a little to at least semi-real levels. It just was not going to attract any investors at [the previous week's] levels," he said.

The Hang Seng index is still 9.4 per cent higher than upon opening on August 14, when it stood at 6,649 and the government began its buying. However, even with a controlled retreat volatility is expected to remain.

"Confidence in the market has been fairly shattered, at least from an institutional point of view, by the way the economy has been trending," said Robert Sassoon, head of research at SG.

The massive government intervention on Friday distracted markets from more fundamental factors, including the release of official projections for a 4 per cent contraction in this year's gross domestic product.

● Standard & Poor's lowered the long- and short-term foreign currency sovereign credit ratings of Hong Kong to single-A/A-1 from single-A-plus/A-1-plus to "reflect a decline in Hong Kong's financial flexibility due to the growing impact of East Asia's recession".

Hong Kong dilutes its free-market image as it grapples with financial crisis

The authorities' share-buying 'binge' has not only built up stakes in the private sector but has also led to questions about credibility and confidence, writes **Louise Lucas**

After 15 months under the same sovereignty, the economies of China and Hong Kong are moving closer together in ways few imagined possible.

China is actively trying to disband its lumbering state-owned enterprises, while Hong Kong – an autonomous capitalist crucible – is busily building national stakes in the private sector.

The territory is reckoned, for example, to have close to 10 per cent of HSBC Holdings, the Hong Kong-based international banking group. Brokers also calculate the government now holds some 11 per cent of Swire Pacific, the British-controlled conglomerate, and 9 per cent of tycoon Li Ka-shing's flagship company, Cheung Kong.

"Does any country where the regulator has a 10 per cent stake in its number one company that it regulates have financial credibility? The answer is No," says Simon Maughan, research head at Indosuez W.I. Carr.

The question of credibility – and the implications for confidence and its role as regional financial centre – has come back to haunt Hong Kong throughout the government's estimated US$14bn share-buying binge.

The share-buying, aimed at banishing from the markets speculators who sought to attack the currency and capitalise on subsequent stock market falls, has been orchestrated by the Hong Kong Monetary Authority, the *de facto* central bank. It has had a limited success.

Some speculators, whose profits were reduced by the government-led share rally and by higher funding costs due to rising interest rates, left the market. But many more have stayed, rolling over their futures positions – which realise profits if the cash index closes lower – into the next month.

"In the last month very big hedge funds have probably been wounded in Hong Kong because funding was expensive and the government successfully limited the amount of stock available for borrowing in the Hang Seng Index constituents," says Jim Mellon, chairman of Regent Pacific, which itself runs smaller hedge funds. "But these hedge funds have been short [selling securities not owned in anticipation of buying them back at cheaper prices] of the market for quite a long time, and from much higher levels, so they gave up some of the gains but probably have easily enough capacity to see it through."

That, unfortunately for the government, is not to say all investors have proved hard to dislodge. Far from it. International fund managers have pared back their Hong Kong holdings as far as the terms of their investment criteria will let them.

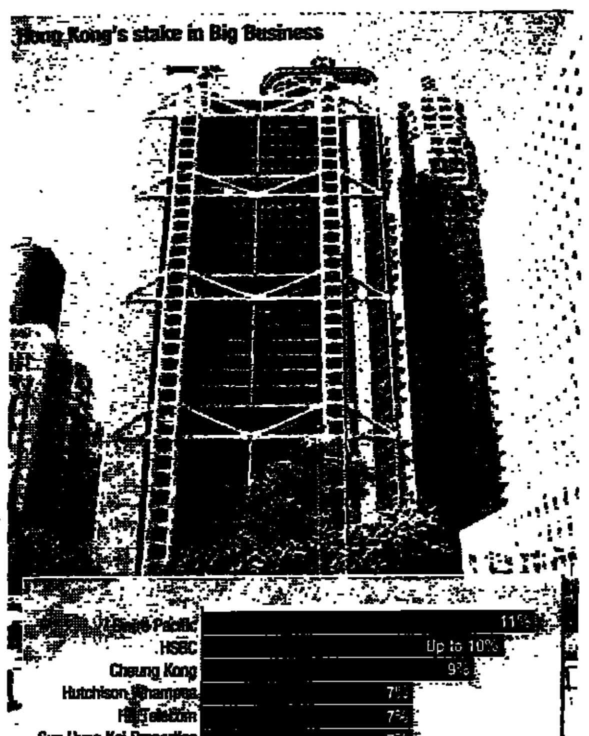
"The government more or less forced institutions like ourselves who had big Hang Seng Index holdings to sell some, because we had bought at prices 20 per cent lower and all of a sudden they are up 20 per cent, and we know that the buyer cannot continue for ever," says Robert Conlon, chief investment officer at Guinness Flight in Hong Kong. The fund management company, like others, was dumping Hong Kong stock last week and buying up comparable airlines and telecoms carriers in Singapore – further accelerating the very capital flight the government is fighting to prevent.

With mutual fund managers retreating, the government dominates the "blue chip" market – along with the companies and directors who have so eagerly, and so presciently, been buying back their own shares in the run-up to the (unpublicised) government intervention which began on August 14.

This cheek-by-jowl arrangement may be raising a few eyebrows, but it is not unparalleled. "The government and a lot of the companies they are buying into are already in alliance in many ways," notes Mr Mellon.

Naturally, the big money made in the past – the genesis of the property and stock market "bubble" – is unlikely to be repeated in the current exercise. Rather, the government holding is an overhang on the market as investors await its exit. This, combined with withdrawal of support, pushed the Hang Seng Index down 7.08 per cent yesterday; further falls are likely, brokers say.

One option, says Mr Maughan, would be to sequester off the accumulated share portfolio into an arms-length company, cease intervention and introduce stringent curbs on futures trading. Such restrictions may appear against the grain but "at this stage the calculation is what you lose from restrictions in the futures market versus the gain from saving the currency peg. That's the trade-off now. The government is not looking at a winning or losing position, just the smaller of two losses and at this stage maintenance of the peg is uppermost in everyone's mind."



Source: Indosuez W.I Carr estimates

Kuala Lumpur curbs offshore share trading

By Sheila McNulty in Kuala Lumpur

Malaysia effectively barred offshore trading of shares yesterday in a move designed to tighten its grip over financial markets. Analysts said the measures might be a precursor to the announcement of outright capital controls, possibly as early as today.

Mahathir Mohamad, the prime minister, will chair a cabinet meeting today, after which he is expected to announce new initiatives to revive the economy.

At a hastily arranged press conference yesterday, a public holiday, Mohd Azlan Hashim, executive chairman of Kuala Lumpur Stock Exchange, said all share scripts must now be deposited with the exchange and may not withdrawn. The buyer or seller must be disclosed, even on nominee accounts. And the exchange will only accept trades through its own market or one that it recognises.

"These measures are necessary and needed to be implemented now, without delay, whilst we are on the road to recovery," he said.

Speculation about possible capital controls have been building since the authorities announced worse than expected 6.8 per cent contraction in the second quarter last week and then stepped up efforts to loosen monetary policy.

Economists said much of the funds made available through the monetary loosening would flow offshore, where rates for ringgit deposits are higher, unless curbs were instituted. The policy shift, along with prospective capital controls, is thought to have prompted the resignation of Ahmad Mohamed Don, central bank governor, and his deputy, Fong Weng Phak. Banking sources said the governor feared such policies would cut Malaysia off from international capital markets.

Singapore, a neighbour and financial rival, is likely to react coolly to Malaysia's announcement. Kuala Lumper does not recognise the offshore over-the-counter (OTC) market in Singapore, where analysts say short-selling in Malaysian shares continues despite being illegal in Malaysia. Singapore says 15 per cent of listed Malaysian companies trade on its OTC market.

The Malaysian authorities tried ending short-selling as the benchmark equities index plunged 70 per cent from its peak last year before the regional financial crisis broke.

Economists said the curbs were unlikely to produce benefits. "At these levels [of stock market prices], I don't see much to be controlled," said Paul Alapat, senior economist at Indosuez W.I. Carr Securities. "It's going to damp sentiment and delay repatriations back into the country."

Beijing plans Hainan rail link

By James Kynge in Beijing

China yesterday unveiled plans to construct a RMB4.5bn ($543m) rail link to the tropical island of Hainan, a further signal of its intention to boost economic growth by infrastructure spending.

The link would involve laying 542km of track and constructing China's first train ferry service across the 24km Jingzhou strait which separates the island from the mainland. The project is expected to be completed in 2001 and be funded by the railway ministry and the Guangdong and Hainan provincial governments.

The project, announced yesterday in the People's Daily newspaper, is one of nine large rail schemes planned by the government for construction over the next few years. Earlier this month, the official media revealed plans for a RMB63.6bn link between Tibet and Yunnan province in China's south-west.

There is also much official debate over when and, in what form, to approve what would be China's most prestigious rail endeavour – a high-speed railway link joining the cities of Nanjing, Shanghai and Beijing.

Japanese government agencies have already made proposals to China's railway ministry for the construction of the Nanjing-Shanghai leg using Japanese contractors and concessionary credit, foreign diplomats said. China plans to boost spending on railway construction to RMB45bn this year from RMB34.9bn last year.

Hanoi dissident likely to leave for US today

By Jonathan Birchall in Hanoi

A leading Vietnamese dissident, Doan Viet Hoat, is today expected to fly out of Hanoi's Noi Bai airport on his way to the US, after spending 20 years in prison in Vietnam for advocating peaceful political reform.

The releases of both Mr Hoat, a 55-year-old academic, and of Nguyen Dan Que, a 56-year-old doctor, were announced on Friday, under a general amnesty affecting more than 5,000 prisoners.

The cases of both men have been raised repeatedly by human rights groups and by western governments. "If you were to draw up a list of Vietnam's top 10 political prisoners, from the point of view of foreign governments, then Hoat and Que would be one and two," said a foreign diplomat in Hanoi.

Both men have roots in the non-communist intelligentsia in Ho Chi Minh City, formerly Saigon, and both were first imprisoned in the late 1970s for advocating greater political and individual freedoms. They were held until 1988. Following the collapse of communism in eastern Europe in 1989, Mr Hoat began publishing an underground newsletter, Freedom Forum, calling for multi-party democracy, while Mr Que attempted to set up an independent human rights group. Both were detained in 1990, in a nation-wide clampdown, and given long prison sentences for subversion.

Nguyen Manh Cam, Vietnam's foreign minister, acknowledged that international interest had played a role in the releases. At last November's Francophone summit, the Vietnamese authorities faced questions from reporters about Mr Hoat, after a French television station aired film of him under detention on the eve of the summit. This summer, Mr Hoat received an international human rights award from the World Association of Newspapers, while both cases were raised in a resolution passed by the European parliament criticising Vietnam's human rights record.

Relatives of both men have said that the releases were conditional on them leaving the country, although those of Mr Que say he may seek to remain in Vietnam. The US embassy in Hanoi says both have been granted permission to settle in the US.

Washington is also likely to be pleased by the freeing of at least two Vietnamese-Americans, Ly Tong and Jimmy Tran, with links to extreme anti-communist elements among the overseas Vietnamese community in the US. Mr Tong hijacked an airliner over Vietnam in 1992 while Mr Tran was involved in an attempt to blow up a statue in Ho Chi Minh City in 1993.

A European diplomat speculated that the releases were part of reciprocal gestures between Washington and Hanoi, with Vietnam's sights set on eventually signing a full trade agreement.

Hard times, racist overtones cloud Australian poll battle

By Gwen Robinson in Sydney

John Howard, Australia's prime minister, gave a rare display of "Aussie mateship" yesterday, yelling "G'day" and glad-handing war veterans at the local Returned Servicemen's League club in his Sydney suburban electorate of Bennelong.

The silver-haired crowd in this bastion of white, middle-class respectability nodded as he praised his government's economic management. His was the only crew equipped to guide Australia through "these difficult economic times," he said.

On the other side of town, in Sydney's gritty industrial suburbs, Kim Beazley, portly leader of the opposition Labor Party, donned a hairnet and headed into a yoghurt factory. Workers from mixed ethnic backgrounds, clasped his hands as he promised a "caring government" that would create jobs and ease the tax burden for low and middle-income earners.

Further north, in Queensland, Pauline Hanson was playing to a very different audience. The controversial leader of the populist One Nation party was telling locals in the semi-rural town of Helidon about her party's new tax policy, to be unveiled on Thursday. "We will target the multinationals and other people coming in here, ripping off this country, taking the profits out of Australia without paying their fair share of tax," she said. The crowd roared approval.

Australia's politicians are drawing the battle lines after Mr Howard on Sunday called a general election for October 3, ending months of speculation about the timing of a poll. All 148 seats in the House of Representatives and half the 76 seats in the Senate will be contested.


Howard, right, greets a war veterans' leader — Reuters

In normal times, the contrasting styles of the main political parties and their leaders would give a reasonable indication of the likely poll result. But these are no ordinary times for Australia.

The campaign period was launched as the Australian dollar floundered around record lows, the stock market reached its lowest levels since last year and economic growth faltered amid plunging commodities prices.

More significantly, the rise of One Nation this year has played havoc with traditional voting patterns and eroded the rural base of the National party, the coalition partner of Mr Howard's Liberals. The latest opinion poll showed One Nation's popularity had risen again after a temporary dip following Mr Howard's mid-August announcement of sweeping tax reforms. One Nation's support is at 10 per cent, while Mr Howard's coalition and the opposition have about 40 per cent each, according to Newspoll, a regular national survey.

The main parties have focused on tax reform, prompting critics to warn against elections dominated by "taxation bribery". Mr Howard's coalition has staked its future on an ambitious package that features A$13bn (US$7.3bn) in personal income tax cuts and a 10 per cent goods and services tax (GST).

Labor has promised about A$6bn in tax cuts, mainly for low and middle-income groups. But unlike Mr Howard's proposal, Labor has stressed it would not draw on future budget surpluses to fund tax cuts.

The recent deterioration of the economy, however, has cast doubt over the size of future surpluses and prompted Mr Howard yesterday to shift his campaign emphasis. He stressed economic management as the main issue.

Many observers warn the real issue lies in One Nation's growing popularity and palpable disaffection in rural electorates with the main parties. In some urban areas, there is evidence of a growing backlash against immigration and rising unemployment. One Nation is also expected to attack Mr Howard's GST proposal, which has already proven unpopular with voters.

But Mr Howard has shown reluctance to tackle One Nation. The only politicians yesterday to take issue with the party's anti-immigration stance were retired ones: four former prime ministers, in an unprecedented move, published an open letter urging voters to shun racist candidates.

"Racism is an unmitigated evil, it is immoral, it does Australia significant harm through Asia and the wider world," said Malcolm Fraser, a former Liberal prime minister, and Gough Whitlam, Paul Keating and Bob Hawke, former Labor prime ministers. "We ask you not to forget the racist debates that have grown in Australia in recent times. At this election, everyone has the opportunity to demonstrate that there is no room for racist politics in Australia."

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	113.0	110.7	5.4	104.9	100.6
1989	115.5	112.7	5.2	97.9	100.1
1990	116.2	112.4	5.5	82.7	93.7
1991	113.3	110.2	6.8	61.7	96.1
1992	117.0	113.6	7.4	61.8	103.2
1993	122.2	117.7	6.8	67.7	105.6
1994	129.2	124.0	6.0	79.0	112.8
1995	132.6	130.2	5.5	79.3	115.8
1996	137.5	134.7	5.4	77.0	120.6
1997	143.0	141.4	4.9	78.0	127.9
3rd qtr.1997	4.8	4.9	4.8	78.9	128.0
4th qtr.1997	4.0	5.8	4.6	80.0	127.9
1st qtr.1998	5.1	4.7	4.6	81.7	129.0
2nd qtr.1998	7.6	4.0		80.3	128.0
August 1997	5.3	5.0	4.8	77.7	127.1
September	4.2	5.0	4.9	80.4	128.0
October	3.4	5.8	4.7	78.5	128.5
November	4.2	5.8	4.6	82.6	128.2
December	4.6	5.7	4.6	78.9	127.9
January 1998	4.9	5.4	4.6	79.6	127.8
February	4.9	4.3	4.6	82.2	128.0
March	5.5	4.5	4.7	83.2	129.0
April	7.0	4.3	4.3	80.0	128.9
May	8.2	4.6	4.3	81.2	128.6
June	7.6	3.2		81.3	128.0
July		1.8			

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	122.6	113.1	2.5	135.2	98.4
1989	132.6	119.7	2.2	146.3	102.4
1990	141.6	124.5	2.1	149.8	99.9
1991	144.5	126.8	2.1	144.2	95.3
1992	139.7	119.0	2.1	124.2	91.0
1993	131.7	113.6	2.5	105.8	92.6
1994	129.4	114.5	2.9	99.4	97.5
1995	128.4	118.5	3.1	103.2	99.7
1996	132.6	121.7	3.3	115.3	100.7
1997	132.0	126.8	3.4	120.6	97.8
3rd qtr.1997	−1.5	3.9	3.4	121.0	99.7
4th qtr.1997	−2.9	−0.7	3.4	118.7	97.8
1st qtr.1998	−9.0	−3.9	3.6	110.4	96.9
2nd qtr.1998		−8.5		104.2	96.9
August 1997	−0.3	3.5	3.4	120.4	100.2
September	−2.0	4.2	3.4	122.1	99.7
October	−2.3	1.3	3.4	119.7	99.2
November	−2.1	−2.7	3.5	116.7	98.5
December	−4.4	−0.9	3.4	119.5	97.8
January 1998	−1.8	−2.6	3.5	112.0	97.7
February	−5.2	−3.9	3.6	107.4	97.1
March	−18.0	−5.1	3.8	112.0	96.9
April	10.8	−6.8	4.1	105.7	96.3
May		−11.2	4.3	99.2	96.4
June		−7.6		107.8	96.9
July					

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	109.1	106.3	6.2	165.1	92.7
1989	111.9	111.4	5.6	219.5	96.7
1990	119.7	117.2	4.8	261.9	98.3
1991	125.0	121.7	4.2	297.9	95.5
1992	122.8	120.0	7.7	287.9	88.5
1993	119.7	112.6	7.9	229.0	93.5
1994	117.6	117.6	8.4	241.2	102.4
1995	118.5	119.4	8.2	268.3	98.1
1996	117.2	119.0	8.8	274.1	101.7
1997	115.7	112.5	9.7	282.8	109.4
3rd qtr.1997	−3.0	2.6	10.1	286.1	109.7
4th qtr.1997	−1.4	3.2	10.3	298.3	109.4
1st qtr.1998	0.5	5.7	10.1	318.6	111.8
2nd qtr.1998	−1.8	3.2		363.9	112.7
August 1997	−2.4	0.9	10.1	289.1	10.93
September	−3.4	1.4	10.2	289.1	109.7
October	0.7	3.8	10.3	292.5	109.6
November	−2.4	2.7	10.3	300.8	109.2
December	−2.6	3.3	10.3	301.6	109.4
January 1998	0.5	7.8	10.1	301.6	110.2
February	−0.1	4.9	10.1	317.5	111.2
March	1.0	4.4	10.0	335.8	111.6
April	−1.6	2.8	10.0	352.5	111.7
May	−0.7	5.4	9.8	369.1	112.0
June	−3.2	1.6		371.6	112.7
July					

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	107.9	107.2	10.0	135.3	101.3
1989	109.5	111.1	9.4	160.6	101.2
1990	110.4	112.8	8.9	163.2	94.9
1991	110.2	111.5	9.4	128.2	96.3
1992	110.5	110.1	10.4	109.5	95.7
1993	110.7	105.9	11.7	90.0	97.8
1994	110.5	110.0	12.3	104.1	104.0
1995	110.6	112.4	11.6		98.4
1996	110.2	112.6	12.3		102.0
1997	111.3	116.8	12.5		106.8
3rd qtr.1997	1.7	5.1	12.5		106.6
4th qtr.1997	3.0	6.4	12.4		106.8
1st qtr.1998	2.3	7.3	12.1		108.4
2nd qtr.1998	3.4	5.1	11.9		109.2
August 1997	−0.9	5.4	12.5		106.0
September	3.5	4.6	12.5		106.6
October	4.4	6.6	12.5		106.6
November	−0.5	5.1	12.4		106.7
December	5.3	7.3	12.3		106.8
January 1998	5.7	6.6	12.2		107.1
February	2.0	6.7	12.1		107.7
March	−0.8	8.5	12.0		108.4
April	4.0	4.0	11.9		108.8
May	1.21	5.8	11.9		108.9
June	5.2	5.3	11.8		109.2
July					109.9

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1988	107.9	114.3	10.0	100.3
1989	116.9	118.7	10.0	98.3
1990	114.4	118.0	9.1	94.0
1991	114.8	116.9	8.8	97.4
1992	116.9	115.4	9.0	91.4
1993	113.5	113.0	10.3	99.2
1994	106.5	119.9	11.4	104.6
1995	101.3	127.3	11.9	103.7
1996	99.2	123.7	12.0	106.3
1997		127.1		115.4
3rd qtr.1997	8.7	3.4	12.1	113.4
4th qtr.1997	7.9	5.6	12.1	115.4
1st qtr.1998		3.4	12.0	117.3
2nd qtr.1998		1.3		114.8
August 1997	8.7	4.6	n.a.	112.3
September	8.2	2.4	n.a.	113.4
October	8.4	4.5	n.a.	113.9
November	7.4	4.5	n.a.	114.6
December	7.8	7.8	n.a.	115.4
January 1998		6.5	n.a.	116.7
February		2.4	n.a.	117.3
March		1.3	n.a.	117.3
April		0.7	n.a.	116.7
May		2.9	n.a.	115.9
June		0.4	n.a.	114.6
July				

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	117.8	111.7	8.6	144.0	96.4
1989	120.1	114.0	7.2	124.3	95.3
1990	121.1	113.7	6.9	97.7	92.3
1991	119.4	109.9	8.8	68.6	97.5
1992	120.4	110.2	10.1	69.6	101.0
1993	123.9	112.6	10.4	76.5	106.8
1994	128.5	118.7	9.5	93.7	110.5
1995	129.9	121.2	8.7	107.4	110.1
1996	133.7	122.6	8.2	131.1	113.7
1997	140.7	124.3	7.1	162.0	115.6
3rd qtr.1997	5.2	1.9	6.8	165.3	114.7
4th qtr.1997	5.6	0.6	6.5	165.0	116.6
1st qtr.1998	5.2	0.3	6.4	159.0	115.1
2nd qtr.1998	3.6	0.9		166.5	114.0
August 1997	5.4	2.2	6.8	165.2	114.2
September	3.9	1.4	6.7	168.5	114.7
October	6.5	1.4	6.7	173.3	115.4
November	4.9	0.5	6.5	161.7	115.8
December	5.3	0.1	6.4	160.1	115.6
January 1998	6.8	−0.1	6.4	155.5	115.5
February	4.6	−0.1	6.5	160.3	115.2
March	4.3	1.1	6.4	161.4	116.1
April	3.9	1.4		162.4	114.7
May	4.7	1.0		168.1	114.2
June	2.1	0.2		169.5	114.0
July	3.0				114.3

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in offical sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

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MILLENNIUM BOMB DISCLOSURE CALL

SEC gets tough over Year 2000

By Paul Taylor in London

Non-US multinationals will have to disclose much more about their potential Year 2000 problems following a new directive from the US Securities and Exchange Commission.

The directive will affect all multinationals with a listing on US bond and equity markets, as well as US-based companies, and is expected to show that many have more problems than they have so far admitted.

Corporate lawyers and those involved in testing and evaluating corporate Year 2000 compliance plans believe the SEC's latest "advisory" on disclosure will trigger a rush by domestic and foreign companies to detail their problems – and a rush to obtain insurance cover.

The SEC's decision is likely to have particularly serious consequences for foreign companies with US listings. It is widely believed that many in continental Europe and Asia have yet to address the problem – also known as the Millennium Bomb – and few have made any public statements about its potential impact on their operations.

The SEC, which has become increasingly frustrated by the lack of detailed Year 2000 disclosure by companies, signalled its intention to get tough earlier this month.

Commission officials complain that many companies, including multinationals with listings in the US, have provided only cursory disclosure in their quarterly and annual financial reports to the market watchdog agency.

Much of that disclosure is formulaic and short on meaningful details, according to the SEC.

The new rules, which went into effect on August 5, require public companies, investment companies, investment advisers and state and local governments to detail how the Year 2000 computer problem will or might affect them.

Corporate lawyers, who have described the new requirements as "exhaustive", point out that they will require disclosure even if a company's assessment of the issue is not complete.

In particular it will require companies to spell out their preparedness, including contingency plans and "worst-case" scenarios. The SEC also warns that an "ostrich strategy" may constitute a disclosure violation leading to SEC enforcement action or a private suit for damages.

In an unusual move designed to underline the commission's concern, Arthur Levitt, its chairman, has written to more than 9,000 publicly traded companies warning them that "it is imperative that you provide thorough, meaningful disclosure on this topic".

"I think investors could be in for some big surprises," said Larry McArthur, chief executive of Ascent Logic, a California-based group which specialises in Year 2000 risk assessment. The SEC's initiative was likely to result in a surge of applications for insurance cover, he said.

Several US insurance companies, including American International Group and Aon, have begun to provide Year 2000 cover.

However, they generally require a full risk assessment conducted by an external specialist.

So far, Mr McArthur estimates that about 100 "Global 5,000" companies have completed risk assessments, with another 500-600 preparing to undertake the process.

Report urges action over 'crisis of oceans'

By Peter Wise in Lisbon

National navies and other maritime forces should be given the power to act against non-military threats to the security of the oceans, particularly environmental dangers, according to an international report published today.

The Independent World Commission on the Oceans (IWCO), set up by the United Nations to study ways of protecting maritime resources, also recommends creating independent global bodies to ensure impartial monitoring of the seas, including a World Ocean Affairs Observatory.

A failure to manage the oceans as a common resource and as an integrated whole, involving a shift away from "an insistence on the traditional sovereignty of states" could lead to catastrophe in the next century, the report warns.

The IWCO's Lisbon Declaration, to be made public today at the Expo '98 world fair in the Portuguese capital, aims to draw the attention of world leaders to what it calls "a crisis of the oceans", ranging from territorial disputes and piracy to over-fishing and pollution.

More than 40 maritime experts and international political figures have been working since 1995 to prepare the report.

Mário Soares, Portugal's leading elder statesman and head of the IWCO, says in a preface to the declaration that the European Union should enhance the civilian role of the naval forces of member states to encourage the peaceful use of the oceans.

To help reduce threats to ocean resources and maritime security, the IWCO calls for the "high seas" – areas outside national jurisdiction – to be treated as a public trust "to be used and managed in the interests of present and future generations".

The commission also wants the role of naval forces to be changed, in conformity with existing international law, to enable them to enforce legislation concerning non-military threats that affect security at sea. "Navies should also play a growing role in sharing the information and capabilities required to safeguard environmental security," the report says.

To promote a fairer sharing of resources, the declaration calls for initiatives to help less-developed coastal states take advantage of their exclusive rights to their use of maritime areas under their jurisdiction.

Commercial fishing agreements should take the needs of local communities dependent on subsistence fishing more into account by paying compensation and helping them to improve their own fishing capacity, it says.

Fear of genocide powers Rwanda's regional ambitions

Michela Wrong on the steely sense of self-identity that is driving the foreign policy of the Tutsis, who live in fear of their own extermination

The broadcast by state radio said it all. Addressing listeners in the Congolese town of Bunia, it told them to use "a machete, a spear, an arrow, a hoe, spades, rakes, nails, truncheons, electric irons, barbed wire, stones... to kill the Rwandan Tutsis".

For those who had lived through the 1994 genocide, when an estimated 800,000 people died in the blood frenzy whipped up among the Hutu population by Rwandan "hate radio", the language used last month was familiar.

It conjured up memories of corpses piled in desecrated churches, mass graves and bodies dumped into latrines by those determined to eliminate the Tutsi "cockroaches".

Here was proof of what the Tutsis had long suspected. Mimicking Rwanda's ousted Hutu government, President Laurent Kabila planned the extermination of the Democratic Republic of Congo's Tutsi diaspora, the very community that launched him to power in 1997.

If countries supporting Mr Kabila have accused Rwanda of harking after the creation of a "Tutsi empire", the real impulse behind this tiny country's convulsive impact on the Great Lakes region lies elsewhere.

At the heart of Rwanda's aggressive foreign policy, say those familiar with the Tutsi-dominated administration's thinking, beats the fear of extermination, the terror of a new genocide wiping out what some have dubbed the Jews of central Africa.

"We cannot talk about reconciliation or development without a guarantee of our survival. It is an obsession with us," acknowledges a government insider. "This is something we share with Israel. We will never allow hostile forces, particularly those associated with the genocide, along our border."

Often cited by Rwandans, the Israel parallel runs deep. As with Israel, an ethnic holocaust has left a minority with a steely sense of self-identity nursing the implacable motto of "never again".

As with Israel, guilt by the international community that stood by during the killings has allowed a government to intervene in its neighbours' affairs with only mixed protest.

Despite public denials of involvement, Rwandan officials admit in private the part they have played in masterminding the rebel movement that was born in Kivu province on August 2, the second attempt in three years to change the leadership half a continent away in Kinshasa.

"Kabila has to go," says one insider. "We thought he would be grateful for being helped to power and be sympathetic to Rwanda's security concerns. But the man had no such intentions. He's a common gangster."

Mr Kabila was expected to put an end to the cosy collaboration between the late Mobutu Sese Seko's army, exiled Rwandan soldiers, militiamen responsible for the genocide and motley rebel movements operating from the anarchic east.

With Banyamulenge (ethnic Congolese) Tutsi fighters forming the hard core of his winning alliance, he would – the theory went – repay his debt by crushing the movements trying to wipe out Tutsis along the border and bring down Kigali.

But once in power Mr Kabila proved no more effective than Mr Mobutu at reining in the extremists. Originally scattered as far afield as Mozambique and Gabon, they began returning to the mountain ranges dividing Congo, Uganda and Rwanda.

Their bloody raids on north-western Rwanda, often triggering equally bloody army reprisals, sabotaged attempts to heal the rift between Hutus and Tutsis.

"On average there's been an attack every day, almost all against soft targets," says a security expert. "The hospitals are full of civilian victims and the raids were starting to spread further south and further east."

According to Rwandan officials, repeated remonstrations to Mr Kabila went ignored. While Uganda's army was granted free reign to pursue infiltrators into Congolese territory, Mr Kabila brushed aside similar requests from the Rwandan army on the grounds of national sovereignty.

Instead, as Mr Kabila's distrust of Kigali grew and his desire to shed his image as a Rwandan puppet escalated, he forged new friendships with the very groups his fighters had tried to destroy the previous year.

Since the start of the year Rwandan officers posted to Congo at Mr Kabila's request to bolster security had been sending back reports of tens of thousands of former *interahamwe* (Hutu militiamen) being trained at three bases in Congo, ready for incorporation in the military.

Kabila: 'ignored appeals'

"We started being aware of training at Kalemie, Kamina and Garamba and we sent a number of messages to the Congo authorities," says Emmanuel Gasana, adviser to vice-president Paul Kagame. "Some denied it, but we had full intelligence information."

In the weeks before the August 2 mutiny by Banyamulenge soldiers, say western analysts, Hutu militiamen streamed out of their mountain hideouts, heading for eastern Congo in response to a general recruitment call.

For Rwanda it was clear: in his bid to whip up national support, Mr Kabila had adopted a genocidal agenda.

"We have no doubt that Kabila is out to persecute the Banyamulenge, the Masisi Tutsis and Rwandans," says Mr Patrick Mazimhaka, minister of state.

Recent reports from Kinshasa of lynchings, necklacings and fatal beatings of suspected Tutsis – identified on the simplistic basis of long noses and slender build – point to the birth of a new fury among a downtrodden public happy to have found a scapegoat for their ills.

"People in Kinshasa were hungry and desperate but they had no experience of killing," says a Tutsi member of Mr Kabila's government who fled to rebel-held Goma after going into hiding in Kinshasa. "Now state radio and television have taught them how to distinguish us and put hate in their hearts."

With its intervention wrongfooted by Angola and Zimbabwe, Rwanda may now be forced to come to terms with an extended Kabila presidency, characterised by a leader and population more hostile to the Tutsi community than before.

Ironically, the drive to prevent a second genocide may have helped stoke racial loathing, thanks to Mr Kabila's rabble-rousing techniques.

In which case, a buffer zone in rebel-held Kivu – central Africa's version of southern Lebanon – will be needed as never before by a minority that sees itself as fighting for the right to exist.

Kabila claims victory in west

President Laurent Kabila of Congo yesterday proclaimed victory against Rwandan-backed rebels on the western front and said the focus of the month-old war had shifted east, **Reuters reports from Kinshasa.**

In the capital, Kinshasa, life started returning to normal, with soldiers lifting road blocks and checkpoints in the city centre after five days of skirmishing with rebel infiltrators.

INFORMATION TECHNOLOGY INTERNATIONAL REPORT SHOWS 73% OF COMPANIES EXPERIENCED SECURITY BREACH IN LAST YEAR

Security risk increased by e-commerce

By Paul Taylor in London

The surge of activity in electronic commerce and the growing use of enterprise resource planning (ERP) and supply chain management software have increased corporate security risk, according to a worldwide report published today.

The report, based on a survey among 1,600 IT professionals in 50 countries and conducted by PriceWaterhouseCoopers and InformationWeek magazine, reveals that 73 per cent of companies experienced a security breach or corporate espionage in the past 12 months.

Companies blamed authorised employees for nearly 60 per cent of the breaches. Former employees, computer hackers, terrorists and competitors were also blamed.

Significantly, companies conducting business through their web site or implementing electronic supply chains and ERP applications were significantly more likely to be victims of security lapses that affected their revenues and corporate data.

Overall, 59 per cent of companies selling products or services on the web reported at least one security breach over the past year, compared with 52 per cent of companies that have a web site but are not using it for monetary transactions.

For specific breaches the discrepancy was even more dramatic.

For example, 22 per cent of companies selling via their web site reported information loss compared with 13 per cent of companies whose web sites provide only information.

"Companies worldwide are challenged with taking advantage of the business benefits the web has to offer while minimising risk to their operations and their bottom line," said Bruce Murphy, PriceWaterhouseCoopers partner.

Nearly half the companies surveyed could not even tell if they had lost revenue as a result of security breaches. "While they know security is important, they have not been able to monitor the damage or pinpoint potential issues before they turn into substantial problems," he said.

More than half the IT professionals surveyed (56 per cent) said information security was a high priority for their overall business, yet only 19 per cent had a complete, descriptive policy to monitor their security practices and solutions."

Israel seeks to entice China into arms deals

Yitzhak Mordechai, Israel's defence minister, said during a visit to China yesterday that he hoped Beijing's drive to modernise its army would result in large arms contracts for Israel, Reuters reports from Shanghai.

Mr Mordechai, who has brought executives from Israel's top arms manufacturers on his four-day visit, said he would hold talks with Chinese generals in charge of military procurement and that both sides would meet in working groups later this week.

"I hope the talks and the contacts we're establishing between the leaders of our defence industries and the leaders of the defence industries here will lead to... contracts and the exchange of information on a large scale," he told reporters travelling with him.

Shanghai, a centre of China's aerospace and electronics sector, is the base for the production of rockets used in the nation's space programme.

"There are complicated economic problems here but, along with the problems, they have a very large army that they want to turn into a modern force," said the minister.

Mr Mordechai will meet Chi Haotian, defence minister, tomorrow and might hold talks with Jiang Zemin, China's president, before he departs on Friday.

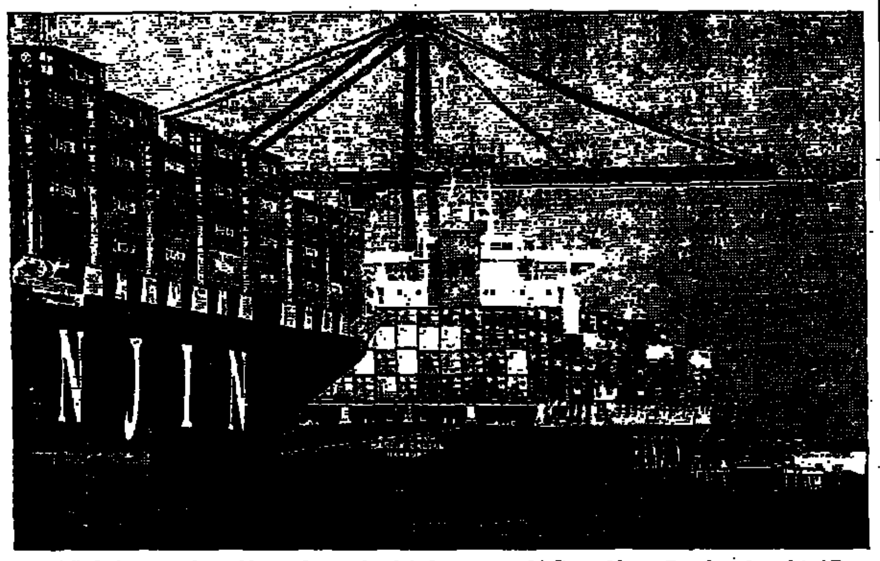
Israel started secretly selling arms to China at least 12 years before the two countries established diplomatic relations in 1992. Analysts say Israel made billions of dollars from the deals during the 1980s, mainly on tank and aircraft upgrades. But according to one security official, sales have dropped since 1993 to less than $50m a year.

Both countries refuse to disclose details of their arms deals.

An official in the minister's delegation said Israel would next month restation a defence ministry representative in Beijing in an attempt to lift sales. "We waited to see how reforms in China will affect the military industries. We hope the reforms will give a push to our defence sales but there are no guarantees," the official said.

Record container trade hides tumbling US sales to Asia

West coast ports are at their busiest in almost 20 years, but vessels are leaving them half empty, writes **Christopher Parkes**



Two fully laden container ships wait to unload their cargo at the Port of Long Beach Associated Press

Records were set at the Port of Long Beach last month as almost 200,000 containers were off-loaded at the west coast's leading trade centre, and 180,000 were shipped out.

Arrivals, 17 per cent more than in July last year, were 7 per cent higher than the previous peak achieved in September. But of the 20ft steel boxes returning, mainly to Asia, more than half were empty.

Numbering an unprecedented 99,000 containers, 102 per cent more than a year earlier, they represented an echoing testament to tumbling demand for US goods in a region squeezed by devaluation and recession.

Long Beach and its neighbour, the Port of Los Angeles, handle about $120bn-worth of goods a year, and account for a quarter of US seaborne trade.

Partly in response to a mounting shortage of containers in Asia, and partly because there is no room to store any more empties, shippers have swallowed the costs of sending half-empty vessels back across the Pacific, says Al Fierstine, business development director at the Port of Los Angeles. The number of empty containers shipped out of Los Angeles rose almost 40 per cent last month.

The recent imports surge, led by back-to-school paraphernalia, is due to be followed by holiday season goods and gifts. With new peaks expected, neither exporters nor ship owners want to be left short of transport.

The west coast's main ports are already at their busiest in almost 20 years. In the 12 months to the end of May, according to the Pacific Maritime Association, the number of hours worked by the region's longshoremen was the highest since 1980. Long Beach alone has increased its pool of casual docker workers from a few hundred a year ago, adding more than 2,000 to cope with the rush.

While last year's port business was disrupted by the fall into chaos of the Union Pacific railroad system, traffic – at least in-bound – is likely to continue to grow unhampered by delays.

Terminal operators have stocked up on cargo handling equipment, and have extended operating hours and introduced flexible opening times, while the railways have more locomotives and cars to carry the goods inland.

Encouraged by US retailers, who have told the Long Beach authorities they expect to continue increasing Asian imports beyond the end of the year, the port is confident of topping last year's throughput of 3.5m 20-foot equivalent units (TEUs).

Helped by improved rail transport, Los Angeles, says Mr Fierstine, is coping with the flood which has seen imports almost double since March. But US exporters – notably machinery, raw materials and food suppliers, which account for most of the dollar value leaving southern California – seem to be finding it harder to deal with the downturn.

First-quarter data from Long Beach, for example, which pre-date the recent worsening of conditions in Japan, show the value of car exports fell 18 per cent, and shipments of aircraft parts were down 23 per cent.

In the same period cotton and frozen meat – among the top 10 export items at both Long Beach and Los Angeles – were almost 30 per cent lower, while Los Angeles' bunkers reported a drop of almost a third in sales of coal.

Taking his cue from regional economists, Mr Fierstine expects these "ups and downs" to continue for another 18 months or two years, by when southern California's main seaports expect to be well on the way to more amenable records, such as their target of doubling the value of the trade through their facilities to $250bn a year by 2010.

Los Angeles feels effects of Asia crisis as visitor numbers decline

Slack trade in the restaurants and stores of Los Angeles' Koreatown, the city-centre focus of the largest south Korean community in the US, offers further evidence of the impact of the Asian crisis on this most Asian of US cities.

According to LA tourism officials, numbers of Korean visitors are 60 per cent down on last year, although trips by Japanese nationals have so far dipped only about 5 per cent.

Although severe, the decline in Korean tourism is not expected to have a marked effect on the industry's revenues since most visitors stay with family and friends rather than in hotels.

The relatively modest dip in Japanese arrivals is more characteristic of Asian travellers' reaction to the crisis at home. Carol Martinez at the LA Convention and Visitors Board says the US is still a relatively cheap destination compared with Europe, and travel has become an important part of many Japanese people's lives which they will not readily sacrifice.

And while they are spending less and steering away from Rodeo Drive and other more expensive shopping centres, they continue to arrive. The New Otani, the leading upmarket Japanese hotel in the centre of LA, which typically fills 55 per cent of its rooms with visitors from Japan, says lower airfares have helped prevent any fall in the numbers of package tourists and individual leisure travellers.

However, the number of business guests is almost 8 per cent below last year's level.

Four eye Venezuela aluminium plant

By Raymond Colitt in Caracas

Venezuela's privatisation agency, FIV, has announced that four groups of investors are interested in bidding for the state aluminium complex on September 7. It will be the third attempt to sell the 630,000 tonnes a year complex, one of the world's largest.

Among the groups that have registered to qualify are UK's Billiton, Kaiser Aluminum of the US, and Venezuela's Sural; Pechiney of France; and Industria Guayanesa del Aluminio, led by the company's own workers.

The base price of $1.55bn for a 70 per cent stake, as well as other contractual terms, will remain unchanged from the previous attempt to sell the complex, on July 23, when a consortium made up of Billiton, Kaiser and Sural failed at the last minute to present an offer.

To prevent another surprise withdrawal, the government will require a $120m deposit by Thursday.

The sale could boost confidence in the Venezuelan economy, as political and economic uncertainty has led to an increase in capital flight.

CONTRACTS & TENDERS

LEGAL NOTICES

Notice of Bankruptcy of Lloyds Name

On August 7, 1998, Joseph M. Michaels, a former member of Lloyds Syndicate Numbers 0037, 0112, 0122, 0126, 0190, 0203, 0204, 0206, 0207, 0209, 0210, 0212, 0282, 0288, 0293, 0316, 0330, 0362, 0384, 0418, 0428, 0488, 0546, 0555, 0602, 0744, 0782, 0839, 0861, 0925, 0950, 0960, 1101, and 1173, filed a Chapter 11 Bankruptcy case No. 98 B 24640 in U.S. Bankruptcy Court for the Northern Dist. of IL, 219 S. Dearborn St., Chicago, IL 60604. Policyholders of policies insured or reinsured by these syndicates may have claims against Mr. Michaels and should consult an attorney. You may obtain add'l information from Debtor's attorney, Whitman H. Brisky, 70 W. Madison St., Ste 2315, Chicago, IL 60602 (tel. 312-855-4418). The Court has set a deadline of Nov. 2, 1998 for the filing of Proofs of Claim on the official Court form. Failure to file a timely claim may lead to the claim being disallowed and to the discharge of any liability on the claim. Complaints to determine dischargeability of certain types of debts must be filed before November 9, 1998.

BUSINESSES WANTED

PUBLIC DEBT SCHEME OPPOSITION TO BAD LOANS CONVERSION

Mexicans oppose bank rescue plan

By Lucy Conger in Mexico City

Mexico's bank rescue programme faces strengthened opposition when Congress opens today, after a nationwide survey found that people were overwhelmingly against it.

Some 2m people voted in a "referendum" organised by the opposition Democratic Revolution party. Preliminary results showed 94 per cent were against the government proposal to convert some $65bn in bad bank loans into public debt and open Mexico's largest banks to unlimited foreign participation.

"The mandate is clear and unquestionable," said PRD president Andrés Manuel López Obrador.

The vote rejected the public debt scheme and endorsed PRD proposals to audit large corporate loans which make up about half the bad debt, provide aid to small debtors and maintain caps on foreign investment in banks.

Marco Provencio, finance ministry official, and Carlos Gómez y Gómez, Mexican Bankers' Association president, said the survey was designed to evoke only a rejection of the government's plan.

Nonetheless, the survey will be waved in front of President Ernesto Zedillo, who delivers his annual state of the union address to the opening session of Congress at a time of increasing economic uncertainty.

The two leading opposition forces, PRD and the National Action party, demand that banks shoulder a greater burden of the bad loan portfolio assumed by the government.

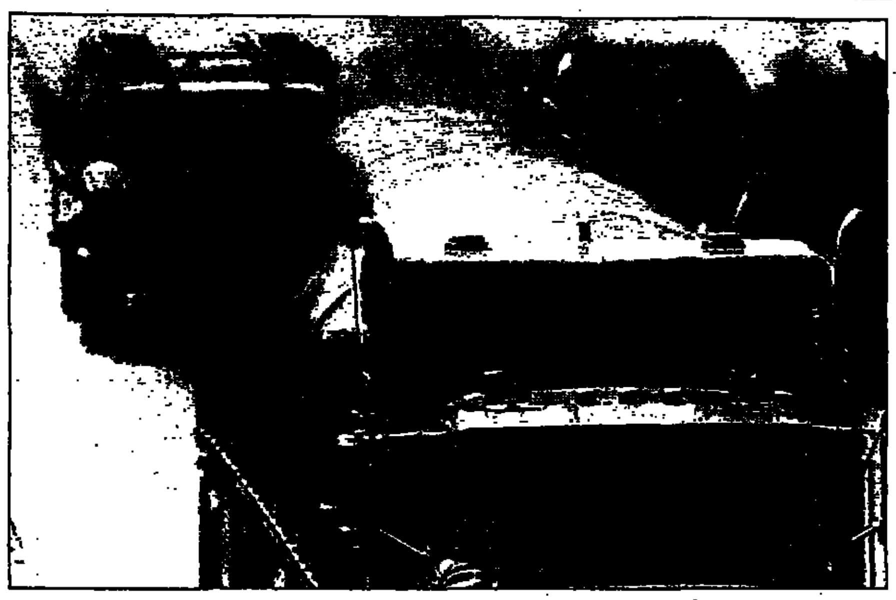
The controversial bank rescue scheme, known by its Spanish acronymn of Fobaproa, is the first order of business for the pluralistic lower house, or Chamber of Deputies, where the initiative has been mired since April.

The government is keen to secure passage of Fobaproa – part of a broader package of financial reforms that would bolster central bank autonomy and strengthen banking supervision – lest it become entangled with next year's federal budget, which Mr Zedillo must present on November 15.

The survey tapped widespread discontent with economic hardships that linger after the 1994 peso crash and a public perception of government-business collusion.

"At heart, Mexicans are showing how annoyed they are with the economic system of the country," said Gerardo Priego Tapia, 33, an economic consultant and board member of the Mexican Businessman's Confederation known as Coparmex.

With the presidential election of 2000 looming, the opposition parties do not want to become identified with a scheme to take on liabilities that will increase the country's debt service by an estimated 4.3 per cent of gross domestic product over the next two years, and have the effect of reducing spending on social services.



A truck burning diesel fuel rolls down the San Bernardino Freeway in Rosemead, California AP

Weasel words on diesel exhaust soot clear the air

A decision on smoking trucks follows 10 years of wrangling between industry, environmentalists and politicians

Letter from Los Angeles
Christopher Parkes

The days of California's heaviest and least tractable smokers are numbered.

Following a last-gasp declaration that diesel exhaust soot is a bad thing, the countdown for thousands of rattletrap trucks and clunkers started last week at the conclusion of almost 10 years of study and wrangling between the state's air police, politicians, environmentalists and the motor, transport and oil industries.

The huff-and-puff marathon ended with the publication by the California Air Resources Board of a form of weasel words to the effect that "particulate matter from diesel fuel exhaust, but not whole diesel exhaust" is a toxic air contaminant.

Apart from leaving one of the least productive talk-shops known to man lost for words, the end of the debate means the air board may now unleash its sniffer dogs to track down and bite the stinkers. The state will also retain its reputation for being at least one jump ahead of the feds when it comes to formulating atmospheric policy.

The Environmental Protection Agency is only weeks away from issuing its own findings on the toxicity of diesel fumes, and since both Bill Clinton and Al Gore have already espoused the cause of clean-burn diesel as a fuel of the future, no-one expects the blanket condemnation so reluctantly abandoned last week by zealots in the Golden State.

Now the deed is done, and everyone is cooing over the "compromise". But the resolution in reality represents another industry drubbing for Carb, and a rare – if fudgy – admission from the smog cops that some of the evidence of toxicity on which the debate was based was dodgy to start with.

There was also a formal acknowledgement that industry had done much to clean up its products, and a redundant reassurance from John Dunlap, air board chairman, that banning diesel engines was never an option.

Detroit, which notched up its last success when it belatedly convinced Carb that its original timetable for the mandatory introduction of electric cars was out of step with current technology, is now relieved of the threat to its business implicit in the original attempt to blacken the name of diesel.

Modern transport fleet operators also have little to fear. Because Sacramento's regulators have no jurisdiction over them, there was never in any case any cause for alarm among out-of-state contractors which account for more than half the truck traffic on Californian roads – and are most easily identified by the black plumes in their wagons' wake.

That leaves Carb with few options for action other than the pursuit of small-time truckers with out-of-date vehicles.

Commonly confined to short-haul drudgery and schlepping between the docks and inland distribution centres, they are hard pressed to make a living, let alone shell out for a new Freightliner.

But since Carb first has to set up a new committee to find the best ways of further advancing clean-burn technologies while clearing the streets of old smokers, it will be some time before their tailpipes puff their last.

□ □ □

If the upshot of the great diesel controversy was another blow for the *dirigistes* and a victory of sorts for commonsense, the atmosphere last week was still soured by the whiff of brimstone and burning ears.

The transport and motor industries were in no mood to let Carb off lightly. Even as the climbdown approached, the Engine Manufacturers' Association was banging on scornfully about the inadequacy of the scientific evidence garnered by the air board.

It took particular glee in poo-poohing the board's reliance on a 10-year-old study of the effects on the health of railroad workers exposed to locomotive diesel fumes in the 1950s and 1960s. This was one of several from which its scientific advisers extrapolated the possible cancer risk to the general public from diesel exhaust.

On the day the deal was announced, Joel Anderson, a senior Californian Trucking Association official, could barely contain his derision. The state had fallen "into line" with what "the majority of the scientific community is already saying – and what we have been saying for the last nine years".

Wouldn't it be interesting, he asked, to see what "nationally known" scientists thought when they produced their EPA report on the same issue?

But perhaps more disheartening was that even while the negotiators sputtered, the debate was being outstripped by technological advances, mandated and voluntary, in the service of international market demand for clean vehicles and fuels.

California introduced clean-burn diesel fuel in 1993 (it is still the only state where it is sold) and the result of its use in modern, clean-burn engines has been a 90 per cent reduction in particulate emissions and a cut of 70 per cent in NOx output compared with 10 years ago.

But the air board is probably right to believe that continuous prodding – at the risk of some rough treatment in return – is necessary to keep industry moving forward.

As long as no-one makes any attempt to convince everyday drivers that they do not really need six-litre 4x4s or industrial-weight pick-ups to do the shopping, Detroit will remain under pressure to maintain the breathability of the petrochemical smokescreen that passes for air in these parts.

Panama's voters rebuff president

By denying him the right to have a second consecutive term in office they have gone against a recent trend in Latin America

By James Wilson in Panama City

Panama's voters have delivered a stunning rejection of President Ernesto Pérez Balladares by denying him the right to stand for a second consecutive term in office.

A referendum on Sunday threw out proposed changes to the constitution that would have meant the president could run again in elections next May. He will now have to wait until 2009 if he wants to stand again.

The vote – by a larger than expected margin of almost two to one – heralds an uncertain eight months before the presidential elections. It also means Panama will have a new leader as it goes into the final stages of the historic handover of the Panama Canal by the US, due at the end of 1999.

"I don't expect any problems at the canal in the immediate future, but there could be changes," said one shipping agent.

The decision reverses the trend in Latin America in recent years of acquiescing to constitutional changes that permit re-election. Since 1994 Argentina, Peru and Brazil have all ended their previous prohibitions on a sitting president standing for office again, although none held a popular referendum to approve the changes.

Ricardo Arias Calderón, president of the Christian Democrat International movement and former vice-president of Panama, has criticised re-election bids by Latin American leaders.

"I think we have helped to put a stop to the development of re-election philosophy and politics in Latin America. This has been marked by the return of the *caudillo* – not in military uniform, but in the garb of the economist. We have shown that it can be stopped," he said.

Pérez Balladares acknowledges his defeat on Sunday

Last week President Alberto Fujimori of Peru had his hand strengthened if he decides to run for a third term in office, when the Congress defeated a call for a national referendum on whether to allow another presidential bid. Re-election has also been introduced in Brazil, where President Fernando Cardoso is favourite this October.

In common with other leaders, Mr Pérez Balladares had based his bid for another term on the need to ensure continuation of his economic reforms. But opposition to many of those reforms appears to be one of the main reasons for the poll result, with criticism of lack of support for the poor and sales of state industries.

Opposition leaders said Panamanians had voted for more "national" polices.

Voters also felt Panama was not ready for changes that could entrench a president in power. It is only nine years since the regime of military dictator Manuel Noriega was overthrown in a US invasion.

Mr Pérez Balladares accepted defeat in a television address, saying: "It is always satisfying to hear the voice of the people – and we have heard it very clearly. We accept it humbly and with great pleasure." He said Panama's democracy had been fortified by the result.

Potential PRD candidates will now throw their hats into the ring to try to secure the party's presidential nomination in primaries on October 25. One member, Alfredo Oranges, an opponent of the president, has confirmed his intention to stand.

As for the opposition, the president's losing gamble has for the moment strengthened its hand, but is still not assured of winning next May's election.

MICROSOFT TRIAL JUSTICE DEPARTMENT DUE TO FILE DOCUMENTS IN FEDERAL COURT

Government sets out to bolster case

By Louise Kehoe in San Francisco

The Justice Department was yesterday set to attempt to buttress its antitrust case against Microsoft in documents due to be filed in federal court in Washington late in the day.

The government filing is the penultimate action before the trial, due to start on September 23, in which Microsoft will face charges that it abused its dominant position in the market for personal computer operating systems software to limit competition in related segments of the software market.

In particular, the government case focuses on Microsoft's moves in the internet browser software arena and its alleged anti-competitive tactics toward Netscape Communications. In what the government charges was a deliberate attempt to limit competition, Microsoft "integrated" an internet browser into Windows, the ubiquitous PC operating system. In effect, the Microsoft browser was provided free of charge. This undercut Netscape's efforts to sell its competing browser.

In July Microsoft claimed the antitrust charges were "completely groundless". The company claimed it had laid plans to include browser software in Windows even before Netscape was founded.

In a potentially serious setback for the government, an appeals court ruled in June that Microsoft's browser was an integral part of Windows, and that by integrating the software Microsoft provided benefits to consumers.

Last week Bill Gates, Microsoft chairman, testified under oath before government lawyers for a total of 17 hours. Mr Gates is expected to be recalled for further pre-trial testimony later this week.

Microsoft, meanwhile, has been gathering material to use in its defence. Netscape acknowledged yesterday that it had received a subpoena demanding internal documents, believed to include records of internal electronic forums. Microsoft could use messages from these forums to try to discredit Netscape management and its products. It appears that Microsoft plans to argue that Netscape itself was responsible for a decline in its browser market share.

Microsoft, meanwhile, plans to press ahead with a request that the federal court dismiss the government's lawsuit. A hearing on the "motion for summary judgment" is scheduled for next Monday.

NORTHERN IRELAND NEW MEASURES TO BE PUT TO EMERGENCY SESSION OF UK PARLIAMENT DESPITE RESERVATIONS OF LABOUR MPs

Ministers set to toughen anti-terror laws

By Robert Peston in London and John Murray Brown in Dublin

The government is toughening its legislative attack on members of fringe terrorist groups in Northern Ireland, in spite of strong reservations on the left of the Labour party about the new measures.

The bill containing the measures, which will be put through parliament in an emergency session tomorrow and Thursday, will include a clause allowing the authorities to seize assets of individuals convicted of belonging to banned organisations.

There were also signs yesterday that Sinn Féin is about to make an important statement about its relations with the IRA, to coincide with a visit to Ulster on Thursday by Bill Clinton, US president.

Sinn Féin officials hinted this was under consideration, following the Omagh bombing two weeks ago that killed 28 people, although it was unlikely there would be a categoric assertion that the "war is over".

The new property seizure powers will be modelled on those possessed by the authorities in their war with drug barons. Similar provisions are being introduced in the Irish Republic, where there had been criticism of Tony Blair, the UK prime minister, for failing to follow the Irish lead.

The government is making a minor concession to critics by publishing the legislation in draft form 12 hours earlier than expected.

But Kevin McNamara, former Northern Ireland spokesman, said he would not be deterred from tabling an amendment to the bill which would contain a string of criticisms.

Mr McNamara will allege that the legislation is in breach of the European Convention on Human Rights by denying suspects the right to silence and also that it will increase the likelihood of miscarriages of justice.

Meanwhile Mo Mowlam, the Northern Ireland secretary, stepped up pressure on the IRA to hand over weapons. "I want to see all groups on ceasefire, all groups beginning to disband their weapons," she said.

David Trimble, Northern Ireland's first minister and leader of the Ulster Unionist party, said he wanted a clear statement from Sinn Féin of its intentions. "It is simply not good enough that the republican movement should refuse to say that their war is over," he said.

Ms Mowlam and Mr Trimble felt yesterday's IRA statement calling for disbandment of the Real IRA, the fringe group which has admitted responsibility for the Omagh bombing, did not go far enough.

Mr Blair defended the legislation in a letter to Labour MPs. He said the domestic element of it was "carefully targetted against the small group of extremists who refuse to accept a peaceful way forward".

However, Sinn Féin said some changes were repressive and inimical to the spirit of the Good Friday agreement between Northern Ireland's parties.

The cool, green oasis fit for a queen

Only the favoured few are able to enjoy *Buckingham Palace gardens, located at the* heart of London, writes **George Parker**

London is famed across the world for its wealth of parkland, its green lungs placed strategically across the centre of the sprawling, steaming metropolis.

But there is one tract of green space – complete with herbaceous borders, shady glens, ornamental lake and pink flamingoes – that is unknown to all but a select few.

Buckingham Palace gardens, in the heart of the capital's tourist belt, offer a glorious escape from the hassle of modern life – but only if you are a member of the royal family.

This 15ha oasis, originally laid out by King James I in 1609, is kept away from prying eyes and tour parties by a wall 3m high topped with spirals of barbed wire. The only way to see it properly (unless you are already a royal) is to marry into the family or devote yourself to years of public service in the hope that you are invited to a palace garden party.

Alternatively, you could try looking out of the right-hand side of an aircraft approaching London's Heathrow airport. It is possible from this vantage point to appreciate the sheer size of this mother of all back gardens.

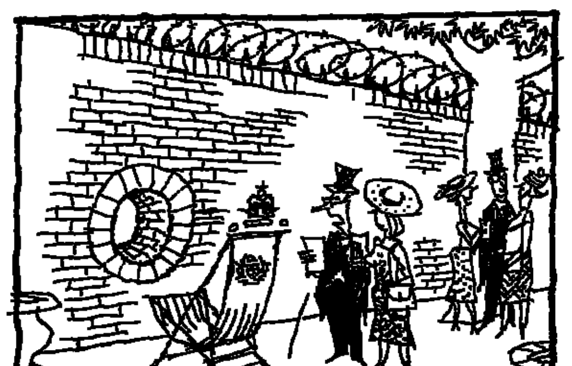
To give an idea of its scale, the gardens are roughly the same size as neighbouring Green Park and only marginally smaller than St James's Park.

From the air, they form a seamless part of the old royal hunting estate – including Hyde Park and Kensington Gardens – which still stretches from Westminster to the fringes of Notting Hill.

For most of the year the only people to appreciate the gardens are Queen Elizabeth, her immediate family and Buckingham Palace staff. It is a splendid sight. The gardens, developed by successive monarchs over a period of almost 400 years, were overhauled in 1703 by the Duke of Buckingham, and were further remodelled by George IV in 1820.

It is a remarkably quiet place, despite the fact that it forms the centre of one of the busiest traffic roundabouts in central London.

The lawns sweep away from the grand terrace at the rear of Buckingham Palace for what seems like an eternity, dropping away to the sunken lake and a stand of mature trees.



King George VI, father of the present queen, cleared out much of the dense, unfashionable Victorian shrubbery, planting a collection of decorative flowering trees and shrubs instead. Queen Elizabeth, who was given a small flock of flamingoes as a present in 1959, added her own touch: a sweeping curved avenue of Indian horse-chestnut trees.

Visitors are today admitted to Buckingham Palace, but their £9.50 ($15.65) tour through the gaudy red and gold interior does not include a viewing of the grounds. "They don't actually see the gardens," a Royal spokesman said. In fact the only reason they go into a corner of the gardens at all, is because that is the location of the palace gift shop.

The only way to guarantee a full tour of the 150m herbaceous border and the other verdant attractions is to get yourself on the guest list for one of the Queen's four summer garden parties. About 10,000 people are invited to each of these not-exactly-intimate teatime events, coming from areas such as the armed forces, the voluntary sector and charities.

But beware. There is a strict dress code. Gentlemen are advised to wear morning suit, lounge suit or uniform, but strictly no medals. Ladies should wear a day dress with hat or a uniform. "Gloves are optional, but trousers should NOT be worn," says the instruction.

Union to fight 'remodelling' of Labour party

By Robert Peston, Political Editor

The Amalgamated Engineering and Electrical Union plans to spend up to £1m ($1.65m) to stem the takeover of the Labour party by the professional middle classes who support Tony Blair, the prime minister.

The AEEU has established as its top political priority the support to "working-class" candidates for safe seats in the House of Commons and the new Scottish parliament.

It is the first substantial attempt to challenge the remodelling of Labour by Mr Blair and Peter Mandelson, the trade and industry secretary, as the natural voice of "middle England".

"The Westminster parliament has become dominated by the professional middle classes," said Ken Jackson, the union's general secretary. "Parliament should work in the interests of everyone, so electricians, engineers, nurses and manual workers all have a part to play."

His campaign may embarrass the prime minister, who was educated at a Scottish fee-paying school and Oxford University and whose recent government reshuffle saw preferment for people such as Mr Mandelson who has cultivated a middle-class, technocratic personal style.

An analysis of Labour's 418 serving MPs shows only 13 per cent have a manual-labour background – the lowest proportion in its history – while at the turn of the century almost all its MPs came from a working-class background.

According to Aberdeen university academic, Byron Criddle, the biggest proportion of Labour MPs, 45 per cent, come from the professions, with business people making up a further 9 per cent.

The AEEU feels aggrieved at what it perceives as a "chattering class" takeover of the party because for much of the 1980s it fought a campaign to staunch Labour's shift to the left.

The union is already spending money on training working-class candidates for the Scottish parliament in how to perform in front of television cameras. It will also subsidise glossy electoral literature.

NEWS DIGEST

AIRPORTS

Airline workers oppose sell-off of landing slots

Six trade unions representing 80,000 airline workers in the UK launch a campaign today against the proposed sell-off of airport take-off and landing slots. They will argue that if the government's policy is changed to allow this it will lead to a threefold rise in airport charges, a 10 per cent increase in air fares, a cut in airline choice for the customer, the collapse of smaller airlines and the monopolisation of London's Heathrow and Gatwick airports by larger, more profitable airlines.

The union action is in reaction to a proposal by the director-general of fair trading who says British Airways should be allowed to sell the 267 slots it has been told to give up at Heathrow and Gatwick by the European Commission as a condition for its proposed alliance with American Airlines.

The unions fear such sell-offs would become the norm at Britain's congested airports. "Other European Union governments have laughed slot-trading out of court. Airlines don't own the slots they use. They were allocated them," said George Ryde, TGWU transport union officer and chairman of the joint union aviation forum.
Robert Taylor, London

COMPANY OWNERSHIP

Overseas groups lift stakes

Overseas companies have significantly increased their stakes in British business, according to figures published yesterday. Dun & Bradstreet, the business information company, said the number of companies in the UK owned by overseas groups rose 4 per cent from 22,407 last year to 23,300 this year.

Almost 33 per cent of the businesses were offshoots of US companies while Holland was the largest European parent.

There are now 2,282 Dutch subsidiaries in Britain, against 2,275 from Germany and 2,084 from France. Japan was in fifth place, followed by Switzerland and the Irish Republic.

CHARITIES

Legacy income rises 19%

Charities' income from legacies rose 19 per cent to almost £500m ($825m) in 1997, according to the Barclays/NGO Finance Charity 100 Index, which charts the income of the top 100 charities.

Charities benefited from the recovery in house prices and strong stock market performances last year, as well as more intensive campaigns to persuade people to leave money to charity in their wills.

The campaigns were prompted by a projection from the Henley Centre two years ago that legacy income was set to fall sharply between 1996 and 2001 as older people spent more on care. The number of deaths is also set to decline as the relatively small generation born during the first world war ages.

Heather Lamont, technical secretary for the index, said a higher proportion of people were now making wills, but fewer were including charitable gifts in them.
Nicholas Timmins, London

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Business Services World News

High-speed scanners read up to 150,000 documents a day.

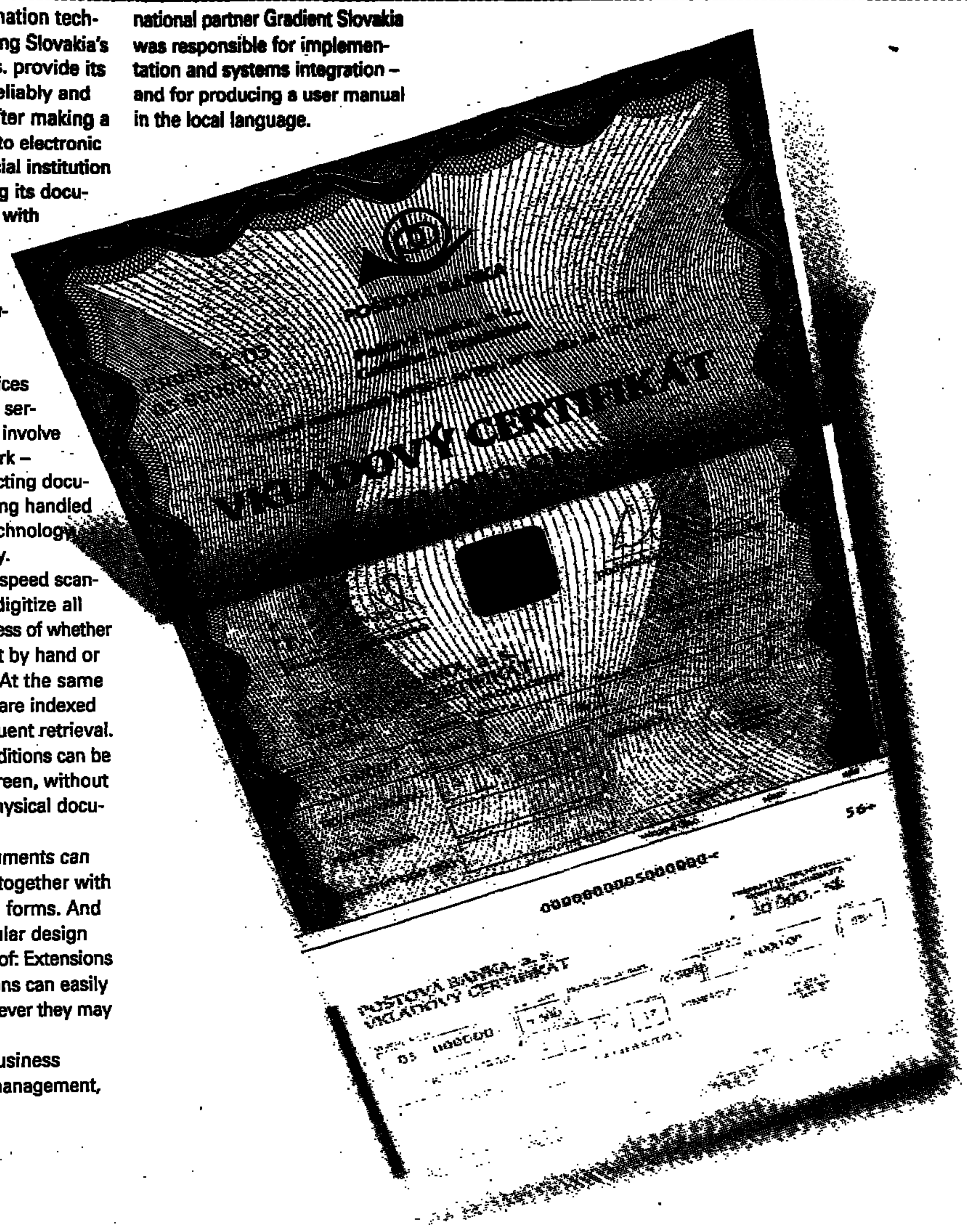
Bratislava: Siemens Business Services equips Slovakian Postbank with leading-edge image processing technology.

High-end information technology is helping Slovakia's Poštová banka, a.s. provide its services quickly, reliably and cost-effectively. After making a successful entry into electronic banking, the financial institution is now streamlining its document processing – with the latest image processing technology.

Up to 150,000 documents per day are handled at more than 1,600 post offices that offer postbank services. What used to involve lots of manual work – entering and correcting documents – is now being handled by leading-edge technology. Quickly and reliably. TranStar5640 high-speed scanners capture and digitize all documents, regardless of whether they were filled out by hand or with a typewriter. At the same time, the originals are indexed to simplify subsequent retrieval. Corrections and additions can be made easily on screen, without the need for the physical document.

New types of documents can easily be handled together with the bank's existing forms. And the system's modular design makes it future-proof: Extensions and new applications can easily be integrated whenever they may *be needed.*

Under Siemens Business Services' project management, national partner Gradient Slovakia was responsible for implementation and systems integration – and for producing a user manual in the local language.



Update your career: Learn IT wherever you may be.

Munich: Here comes SKIN – the Skill Improvement Network.

The situation is paradoxical: There's a huge demand for qualified IT specialists – but high unemployment. Reason enough for Siemens Business Services to join forces with other leading information technology and telecommunication players to launch an education initiative. The purpose of SKIN, the Skill Improvement Network, is to help as many people as possible enter new technology careers. This year alone, SKIN intends to train 500 participants as highly sought-after Microsoft Certified System Engineers (MCSE). And it's anticipated that all of them will then find jobs.

This innovative concept comes from Siemens Business Services, Microsoft, Prokoda, DITEC and Deutsche Telekom: Most of the training is done online – i.e. *students can learn anywhere* and at anytime – using self-teaching media and the Internet. Plus local training courses and exam prep sessions. So SKIN is also attractive to those who hold full-time jobs.

Microsoft is providing the training materials and the required software. Siemens Business Services, Prokoda and DITEC are conducting the technology-based qualification and training activities throughout Germany. With highly competent coaches either online or at the training site. Deutsche Telekom is making this online learning opportunity available via its "T-Mart Global Learning" service, with e-mail, news and chat functions – *in* other words, with options that allow students share experiences with other participants or form virtual study groups.

SKIN enables training costs to be slashed by more than one *half. It's a way to update* personal careers and enhance the capabilities of the IT industry.

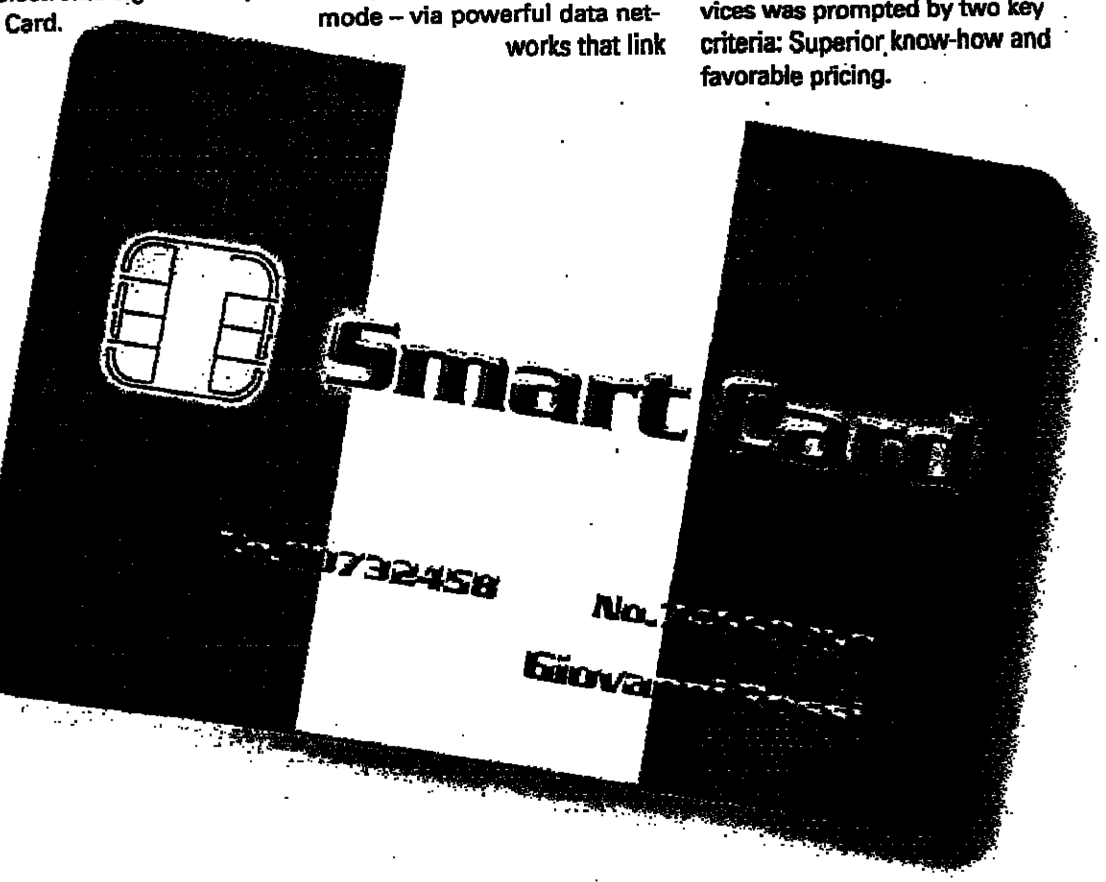
A first in Italy: Smart Cards for electronic signatures.

Rome: Treasury Ministry opts for innovative network.

Italy's Minister of the Treasury wants to see speed. So an innovative IT network from Siemens Business Services is speeding up payment transactions between the ministry and the regional *administrations.* And uncompromising security is part and parcel of the project: Access to the system is by means of an electronic signature – per Smart Card.

In deploying the project, the Treasury Ministry is playing a pioneering role in Italy's government and administration. The DM 20 million project is taking advantage of new legislation that for the first time allows the user to be identified by means of an electronic signature. Financial transactions are now being handled in a paperless mode – via powerful data networks that link the central ministry in Rome with 20 provinces. Smooth operation is assured by clustered PRIMERGY 560 servers in a high-availability configuration. Also integrated within the system are the 120 provincial administrations and their local area networks, as well as the National Bank of Italy.

The decision to award the contract to Siemens Business Services was prompted by two key criteria: Superior know-how and favorable pricing.

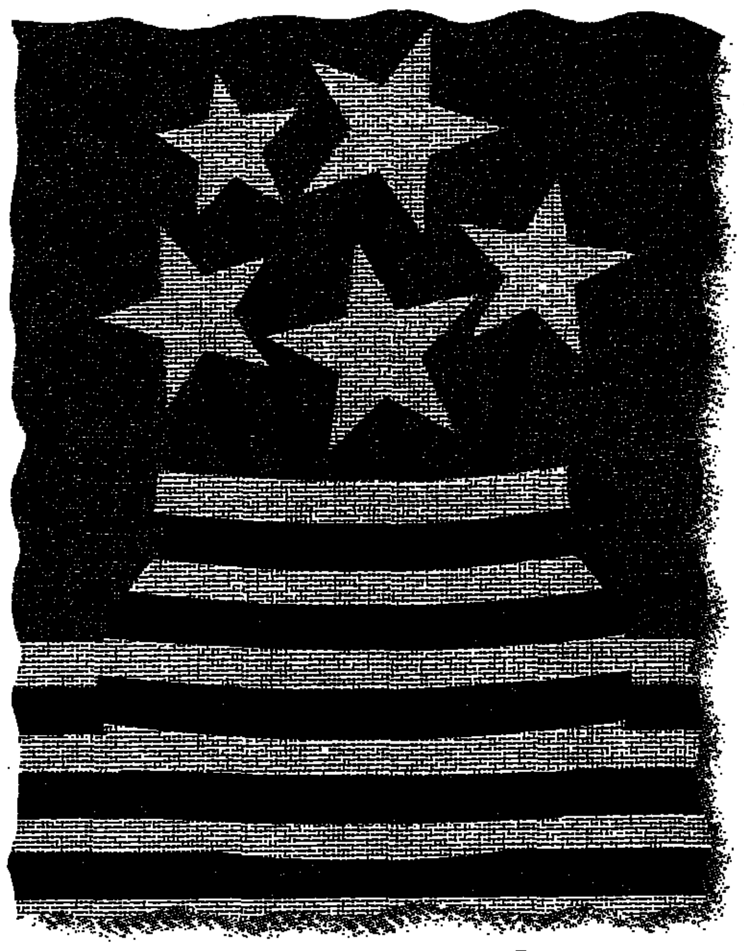


Business Services World News

A 4-billion-page mountain of information in the new IT system.

Paris: Modern IT environment for Direction des Journaux Officiels de la République Française.

The French government's "Direction des Journaux Officiels" is well equipped for the next millennium: Leading-edge information technology affords fast and accurate access to a staggering number of documents – from codes and legislation to parliamentary inquiries and government statements right through to technical reports.
In the past, 15 databases running on various computer generations were used to administer the gargantuan flood of information: four billion printed pages per year. But the heterogeneous system was no longer able to cope with today's needs.
The new solution, designed by Siemens Business Services at the Belgian R&D center of Namur under the control of Siemens Business Services France as main contractor. It uses Reliant-Unix as the operating system and runs standard software as Oracle and Fulcrum. In addition to standardizing different data formats, a special kind of challenge also had to be mastered: There was to be no interruption in utilization of the existing data inventory and storage of new data during the migration to the new database.
Government agencies can now access password-protected data within an intranet. In the future, the general public, too, will receive access to important documents and legislation over the Internet.
Jean Didier Roux, who heads the project at the Direction, already sees long-term prospects for the partnership with Siemens: "We have gathered important experience together. As soon as the project has been concluded, we'll also be able to support other government agencies in deploying new information technology."



Siemens Business Services for superior customer services.

Hudson: JoAnn Stores, Inc. networks all of its 1,100 retail outlets nationwide.

JoAnn Stores, Inc. (formerly Fabri-Centers of America) is counting on the R/3 suite of business software from SAP to further enhance its customer service to rigorously optimize its business processes. And smooth implementation is being assured by a competent partner: Siemens Business Services.
JoAnn, whose roots date back to 1943, has clearly charted a successful course with its creative products for creative customers. With a workforce of over 17,000 people in 1,100 locations throughout the United States, this company is the country's largest retailer of fabrics, handicrafts and home accessories.
A powerful IT infrastructure that networks its corporate headquarters in Hudson, Ohio, with JoAnn's locations in all 50 states is intended to assure this success over the long term. And R/3 will also eliminate other problems, so that JoAnn can now look forward to the millennium change without any apprehension.
In selecting Siemens Business Services, the company opted for a partner with numerous unique strengths: Extensive experience with R/3 retail solutions, effective implementation in a minimum of time and – last but not least – a proven track record of solutions competence that stems from numerous R/3 projects throughout the world.

South Africa counts on integration by Siemens Business Services.

Johannesburg: A new signaling network infrastructure.

Intelligent IT utilization equals faster communication which in turn equals more reliable service – and that's crucial in today's hotly contested telecommunications market. In preparation for deregulation of the local telecoms market, Telkom South Africa decided to upgrade its signaling network infrastucture.
Siemens Business Services won the $10 million contract and brought the TCSI Corporation, an international software specialist in the telecom industry, on board as a partner in the project. Both partners will be responsible for all phases of the project. From installation of the hardware, through the implementation phase, ensuring that the system is capable of communicating with Telkom's unique switching hardware through to training and managing the required transfer of skills. TCSI's INSuite™, an innovative program that manages network monitoring and failsafe operations, is at the heart of the solution. The solution is the most flexible available in the market today. It offers maximum flexibility for seamless integration of future extensions and upgrading to new customer requirements are ideally supported. And that's exactly what counts for this telecommunications giant on the African continent: To always enjoy a competitive edge with its new, quickly expandable infrastructure. Telekom South Africa is optimistic that it will be able to add 2,7 million new access lines to its service base in the coming years.

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BRITAIN

RETAILING SPECIALIST CATALOGUES SET TO OUTPERFORM ELECTRONIC SALES AS HOME SECTOR EXPANDS

Big growth predicted for shopping by mail order

By Scheherazade Daneshkhu in London

Home shopping is set to grow substantially, outperforming the growth of general retail sales over the next few years, according to a report published today. However, the growth will be driven by specialist mail order catalogues rather than electronic shopping, according to Verdict, a retail research consultant.

The report says home shopping's share of all retail sales increased for the first time in four years from 4.55 per cent in 1996 to 4.61 per cent last year. It predicts home shopping, with sales last year of £8.2bn ($13.5bn), will gain a market share of 5.8 per cent in 2002 because of a sharp increase in the number of specialist catalogues.

Traditional catalogues – known as agency mail order – are big general catalogues that allow payments to be spread over time. The new, *direct* mail-order catalogues are small and focus on certain products, often at the upper end of the market. Some, such as Boden, sell designer labels.

The entry of retailers, including Marks and Spencer and Next, into the direct mail-order market has spurred traditional mail-order companies, including Great Universal Stores and Littlewoods, to introduce niche catalogues.

"New catalogues, such as La Redoute, Select and The Book, are genuine direct catalogues with none of the agency terms of trade and are competitive with the high street," says Verdict. "They mostly target sections of the population outside the traditional agency market which Verdict believes will provide the stimulus for strong growth of the whole home shopping sector."

Direct mail order was the fastest-growing sector of the home-shopping market last year, growing 15.3 per cent to £1.7bn. Verdict believes the proliferation of new entrants will expand the market rather than cannibalise what already exists.

"The calibre of the new entrants will bring it a new image, removing any remaining stigma over mail order as a way of shopping, making it part of the mainstream norm and thereby encouraging new customers, especially at the upper end of the socio-economic scale," says Verdict.

Clothes dominate the home-shopping market, accounting for 48 per cent of sales. However, the range of mail-order goods is wide and includes soft furnishings and shoes.

Although electronic shopping has strong growth prospects, it is still in its infancy and represents only a small proportion of the whole market. Electronic shopping sales doubled from £79m in 1996 to £135m last year but accounted for only 2 per cent of home shopping sales. Verdict forecasts it will reach 7 per cent of all consumer spending on goods by 2010 when the internet reaches maturity.

Some of the thousands of dancers who took part in the 33rd annual Notting Hill carnival in west London yesterday. The three-day event, sponsored by Virgin Atlantic, whose chairman Richard Branson lives locally, includes separate costume parades by children and adults, plus live music, and this year attracted 2m visitors. Police said crime was markedly down on last year's figure. The carnival has evolved from a small procession in 1964 into a huge multi-cultural arts festival. Press Association

MARKETING BARCODES

Advantages slip through a crack in the barcode

Companies have suffered from the absence of a universal coding system, finds **John Willman**

Barcodes have become the universal currency of modern distribution systems in the 25 years since their introduction. From the raw material supplier to the retailer, goods are marked with the ubiquitous striped rectangles to help each company in the supply chain keep track of stock, invoice customers, and monitor sales.

Yet there is no common agreement on the value of any particular item of this new currency. Identical barcodes can mean different things to different companies – and in some cases refer to different products.

This has little immediate impact on the consumer, who is still likely to marvel at a technology which allows retailers to produce itemised bills, give discounts for special purchases, and run sophisticated loyalty schemes. But it creates confusion in the distribution chain, which costs millions of pounds each year to sort out.

And absence of agreement on what barcodes mean makes it harder to develop the efficient consumer response (ECR) approach that is increasingly seen as vital to competitive advantage.

ECR involves closer partnerships between companies in the supply chain to reduce waste in the chain and to eliminate unnecessary promotional spending. Manufacturers and retailers believe it could cut costs in the European supply chain by £6bn a year – but they need fast, accurate data to reap the full benefits.

"Without a common currency to deal in, accurate and reliable data transfer and comparison – particularly across international borders – is impossible," says John English, managing director of Udex, a company offering itself as the organisation to establish that common currency.

The difficulty arises because the 13-digit barcode contains very little information. The first two digits are for the country of issue and the next five contain the manufacturer's identity. Then come five digits which are the manufacturer's product number for the particular item, while the final figure is a check digit which allows computers to make sure the barcode is valid.

When any organisation in the supply chain reads a barcode, it gets the information it needs by looking up the 13-digit number in its own database. For a shop till, the database supplies a simple description to print on the bill, price, and any special billing information, such as a discount.

Descriptions given to barcode 5000174701678 by 11 different retailers

- 50ml hair care shampoo
- Pa sh norm/gray – twn p
- Prtn nm/grs spo/cnd-1/3
- Pantene s/p 250ml + cond n/g
- +Pante shmcn hcmbo rb 450ml
- Pantene shampoo 250ml normal/
- Pantene s/poo&cond norm/gray 200/2
- Pantene shampoo 250m/cond.200m nm/gy ba
- Pantene twin pk sham/cond. nrm/greas 450ml
- Shampoo Pantene shampoo 250ml normal//+cond
- Pantene shampoo 250m/cond.200m nm/gy banded pk

Source: IRI Infoscan

Other parts of the organisation draw different information from the database. The buying department needs the name of the supplier for reordering, while the warehouse might want the size of the product, its packaging material and the quantity supplied in each case or pallet for storage and distribution.

The marketing department needs information on the form of the product – with detergent, for example, whether it is powder or liquid, concentrate or normal, biological or non-biological. Sales of special promotions such as buy-one-get-one-free offers are monitored carefully.

Each company stores in its database the information it thinks it needs about barcoded items. That is where the problem arises: there is no consistency between companies' databases and the information stored on them.

The Pantene barcode example outlined left shows the result of this for a single item: the descriptions held by 11 UK retailers for a twin-pack of Procter & Gamble's Pantene shampoo and conditioner. Some are inaccurate and some lack details which would be of value to marketing departments, such as the type of hair for which the product is designed. Only two itemise both elements of the twin-pack, the quantities and the hair type.

Does this matter? The store which uses the first definition is probably happy, after all. Yet it is losing the opportunity to analyse its sales by missing out essential information. It will be unable to figure out whether twin-pack promotions are popular with its customers, for example, or what sort of hair type they have. If it has a loyalty card scheme, it will know less than it could about what each customer buys.

These inadequacies in its information may have a knock-on effect all along the supply chain if sales data are shared between manufacturers, wholesalers and retailers. And across the industry, comparable data are essential for the marketing information companies, such as ACNielsen, which produce the sectoral sales reports that all consumer companies need to run their businesses.

The difficulty is increased by the growth in cross-border trading in Europe, with companies supplying several countries with products manufactured in one. Over the years, some large groups have allowed product item barcodes to be assigned to different products in different countries.

Udex believes losses from these differing definitions of barcodes run into tens of millions of pounds a year – waste largely hidden from companies because the impact is spread across departments and countries.

His company's solution is to establish a database, independent of any retail or manufacturing group, to hold a unique description of each barcode with the information needed throughout the supply chain.

It will get the details direct from manufacturers and distribute them to subscribers via the internet. Udex will monitor the input to make sure it is fully comparable with other data and adapt the system to cope with information as markets evolve.

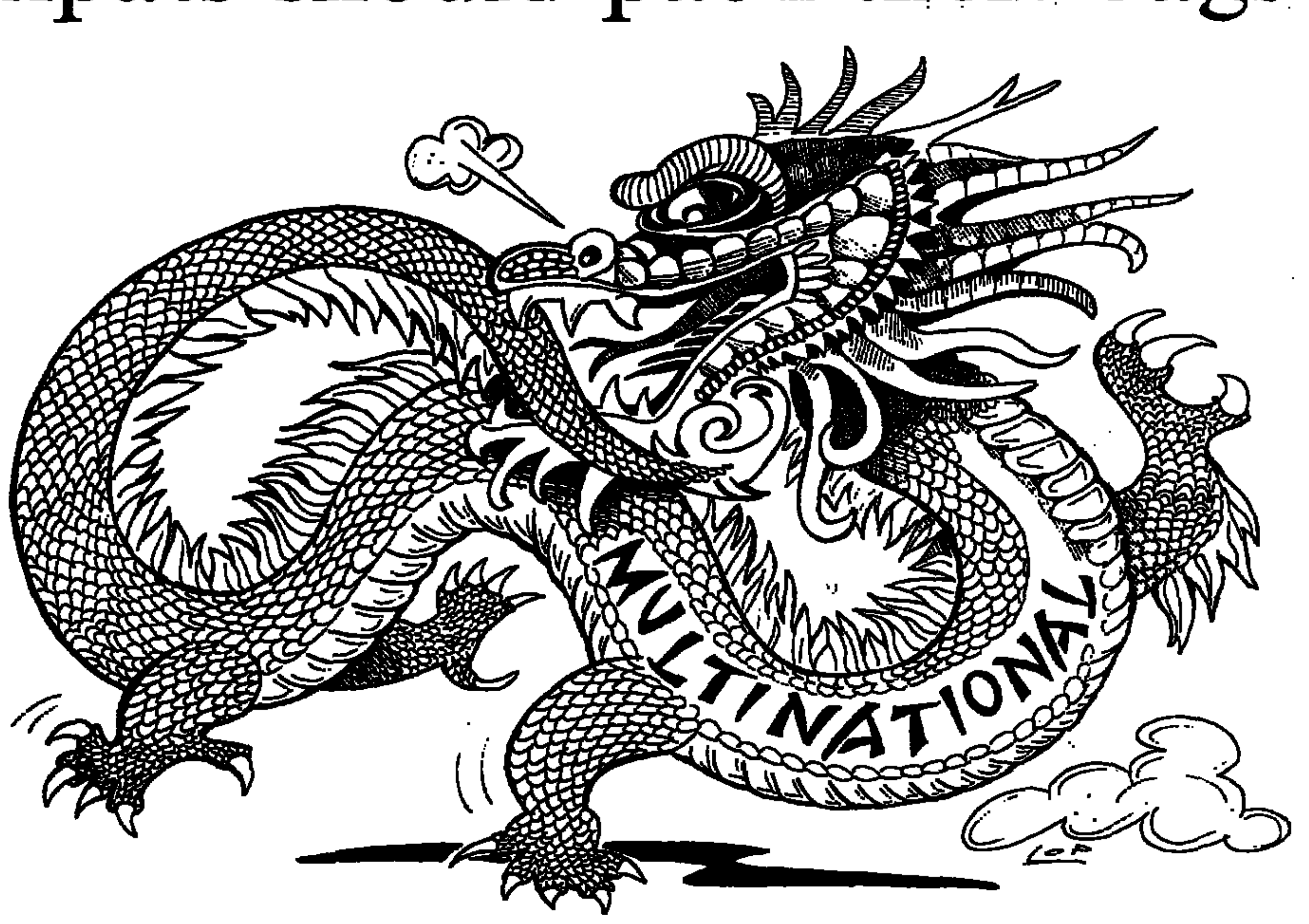
The system is being tested in the UK with Asda, the supermarket chain, backed by a £1m investment from 3i, the venture capital outfit. Three large soap powder manufacturers are involved: Procter & Gamble, Unilever's Lever Bros division, and McBride, the biggest supplier of own-label detergent. ACNielsen and Taylor Nelson Sofres, two leading market research companies, are also involved.

Steve Hoban, Asda's laundry products buyer, is cautiously enthusiastic. "The Udex initiative offers the prospect of improved productivity, reduced costs, and improved service throughout the supply chain," he says.

MANAGEMENT JOB LOCALISATION

When expats should pack their bags

Chinese experience points up the perils for multinationals that shed expatriate staff too fast, says **James Harding**



Replacing expatriates with local employees is one of the most hotly debated issues in the corridors and canteens of international companies operating in China.

In public, the debate about "localisation" is a little more tepid. Multinationals often like to portray the process as an unalloyed good: good for the Chinese staff, whose morale is lifted by promotion or, at least, a sense of equal opportunity. Good for the company, which benefits from a management in touch with the needs and culture of the local market. And good for the bottom line, since sending expats home can generate huge cost savings.

Duncan Garrood is general manager of Wall's ice cream, the subsidiary of the Anglo-Dutch group Unilever, in Shanghai. As Mr Garrood moves up the executive ladder, his job will be transferred to local management at the end of this year. The company views this transition as a "matter of pride", he says.

"This is the right process, to have a Chinese business run by Chinese managers. There are people who say they agree with localisation – but not yet. We say it is a business advantage to have Chinese managers because they take decisions that are right for the Chinese market."

But, as Mr Garrood also suggests, and many multinational managers privately confirm, localisation is by no means a clear-cut issue.

The process of transferring management control from foreign to local staff touches on some of the most sensitive areas between people working in international companies in China. These include trust, transparency, racial discrimination and the huge differences in management experience, education, pay, opportunity and local market understanding.

As C.K. Prahalad and Kenneth Lieberthal observe in The End of Corporate Imperialism (Harvard Business Review, July-August 1998): "Leadership of a multinational's venture in an emerging market requires a complex blend of local sensitivity and global knowledge. Getting the balance right is critical but never easy."

Nor is it a challenge limited to China. Deciding when to hand over responsibility – and how much – can prove a problem for multinationals in most of the world's emerging markets.

But in Asia in particular, many multinationals are under pressure to localise as head office seeks to cut the costs of expensive ventures in underperforming markets.

Irv Beiman, a country manager of Hewitt Associates, an international consultancy that specialises in managing people in business, says: "People have become a lot more interested in localisation in the last year because of the 'Asian 'flu'. It is financially driven."

The savings from sending an expatriate home can be substantial. According to a report by business consultancy Arthur Andersen, the remuneration for a foreign professional in China tends to be about \$200,000 to \$300,000 a year – a typical expatriate package for a middle manager with a family includes basic salary, cost of living adjustments (15-20 per cent), hardship allowances (15-20 per cent), tax equalisation, housing allowances, children's education allowances, regional rest and recreation, and home leave (once or twice a year).

A high-calibre local manager with the skills to replace an expatriate is likely to command a salary of roughly \$36,000, plus pension, housing, education, and insurance, which add \$23,000 to the costs, says Michele Lee, a business consulting manager at Arthur Andersen.

However, the promise of saving on expatriate expenses can propel companies into a rushed programme of localisation that may prove more trouble than it is worth. Those companies that have localised in a hurry without sufficient training for the replacement Chinese managers, have found they can quickly lose financial discipline, quality control, and corporate identity.

"Doing business the Chinese way is much less well-documented and can be dangerous. There is a serious risk when you give up financial control," says an expat manager at one multinational. He would rather not give his name, reflecting how awkward some foreigners find it to voice objections to the localisation process, since concerns about promotion of Chinese management can smack of "corporate imperialism".

Once Chinese staff have been promoted to management, it can be difficult to reverse the process, even if the company feels it has localised too soon. "There are companies that have localised and made mistakes. And if you do not do it right, it will come back and bite you. It is very difficult to recover from that ... because then you have race issues," says Mr Beiman.

Localising too fast may be hazardous, but moving too slowly can also be problematic. Multinationals that drag their feet on localisation risk seeing their young, talented executives leave.

Ms Lee says: "There are a number of companies that keep on saying they want to localise ... they keep up the propaganda, saying to the locals 'you have a future with us'. But year after year, there are more expats coming, and so the locals are not very motivated." Most multinationals in China have acknowledged that expat-heavy management structures can prove demotivating for Chinese workers. But, says Mr Beiman, few companies have developed an adequate strategy for localisation.

Part of the problem is that many international businesses pay lip-service to localisation but ignore the issue in practice. For example, expat managers arriving in China are often told that part of their job is to train local executives to replace them. But when it comes to the foreign manager's salary and career review, he or she is judged simply on the success of the business operations.

Localisation is a process that involves assessing the particular needs and strengths of local management. Mr Garrood says the highest positions in Unilever in China will be filled by Chinese citizens when they have the same kind of experience as the company's other international senior executives – years of management experience abroad.

Professors Prahalad and Lieberthal acknowledge that expatriates at multinationals play "multiple roles", transferring technology and management practices, transmitting the corporate culture, and acting as credible conveyors of information between the emerging market and head office.

On the other hand, expats have their own problems. "Cultural and language difficulties in countries like China and India typically limit expats' interaction with the locals as well as their effectiveness," they say.

So, while many people have reservations about the process, few argue with the ultimate logic: localisation can cut costs and create a market-sensitive, morale-boosting management structure.

"It is a way to save on expat costs, and you can end up with a more effective management," says Mr Beiman. "That is, if it is done well, which all too often it is not."

TECHNOLOGY NEW MEDICAL VENTURES

A model heart equipped with all essentials

Victoria Griffith on a computer simulation that cuts research costs and improves information

Computer simulations help teach people everything from how to pilot an aircraft to how to manage a company. Now Physiome Sciences, a new medical venture, has built a simulation of the human heart to forecast the effectiveness of new drugs. It can even predict the health of a heart decades into the future.

The company rents out time on its computer heart to medical researchers.

Last year Physiome, based in New Jersey, tested its first drug, a high blood pressure treatment developed by Switzerland-based Roche called Posicor. The treatment was having trouble meeting the high standards of the American Food and Drug Administration because of concerns that the product might cause arrhythmia – irregular beating of the heart. Partly based on Physiome's data, Posicor passed the test and gained market clearance.

"The FDA's readiness to accept our data was extremely encouraging," says William Scott, chief executive of Physiome. (The drug was later withdrawn from sale because of side-effects unrelated to the arrhythmia question.)

Physiome says it is in talks with eight pharmaceutical groups to play an early role in developing heart treatments. "Companies are looking to use our heart to eliminate poor drug candidates early on," says Mr Scott.

Physiome is also developing a product that can make predictions about the future health of an individual's heart by factoring into the model their age, weight, diet, exercise routine, and other information. "We see this as a tool for medical diagnosis and treatment as well as for drug development," Mr Scott explains.

However, sceptics have long charged that such computer simulations are useless. Not enough is known about the subtleties of nature to fully imitate it on a computer screen, they argue.

Denis Noble has been modelling heart cells for 30 years at Oxford University and has now joined forces with Physiome.

"We wouldn't even have the computer power to include everything we know about the heart in a computer simulation, and we don't know nearly enough," Dr Noble admits.

The point is not to build the perfect model, he says. Rather, it is to distill the heart's mechanisms to their essentials to gain important information.

"We don't have to be 100 per cent accurate to be useful," says Dr Noble. "The question is: does it save pharmaceutical companies money and does it provide information that would be difficult to get elsewhere? I think the answer is 'yes'."

Physiome uses a supercomputer for full simulation, but much of the work can be done on a simple desk-top computer. Physiome's scientists hope their software will eventually become a common tool for anyone doing heart research.

"The way it works now is that researchers form an idea in their head about how molecules interact with each other, then conduct expensive experiments," says Dr Raimond Winslow, the Johns Hopkins University scientist responsible for scaling up Physiome's heart simulation into a three-dimensional model.

"The problem is, you can waste a lot of time that way. The mechanisms that govern the heart are too complex to keep in your head. Intuition can lead you astray. So the heart model can be an important tool early on in the drug development process."

The heart is well-suited to computer modelling because the muscle is controlled by mathematically measurable electronic impulses.

Computers would run for days 30 years ago to predict a heart cell's activity over a few milliseconds. That information can today be obtained on a desk-top.

The entire human body may one day be modelled on the computer. Physiome is expanding its reach to other organs, including the pancreas and the lungs.

And while Physiome has no competition yet in commercially available organ simulation, the company says it expects its monopoly to end soon. San Francisco-based Entelos is building a model of the immune system, and Nevada-based NaviCyte is working on a simulation of the intestinal system.

مكررا من الاصل

In full control of tragic Alexandrines

Alastair Macaulay talks to director Jonathan Kent as he prepares to launch a Racine season in the West End

For many people, the tragedies of Racine (1639-99) are not only equal to those of Sophocles and Shakespeare, they are also among the top most peaks of all classical art. Voltaire called Racine's *Phèdre* "the masterpiece of the human mind". Yet these plays are seldom performed in English translation. How come? Because the sonority and precision of Racine's verse render him the least translatable poet since Horace. There are only a few hundred words in all his plays. Sometimes – amid the pressure-chamber of his verse, his French Alexandrines with their intense hexameters and rythming couplets – it feels that there are only a few dozen words; and it seems that both the characters and you are fenced in by them.

Therefore Britain rarely sees his plays in the theatre, where they belong. Even if you think that Shakespeare surpasses Racine – the matter has been intensely debated on both sides of the Channel for centuries now, and Stendhal in 1823 wrote an entire book, *Racine and Shakespeare* on the subject – you should recognise that the shortage of Racine on British stages makes our theatre the poorer.

This September, however, this situation will change. Tomorrow Luc Bondy's production of Racine's most famous tragedy, *Phèdre*, opens at the Edinburgh Festival. Meanwhile the Almeida Theatre has commissioned a new translation of the same play from Ted Hughes. This production – directed by Jonathan Kent (who is, with Ian McDiarmid, one of the Almeida's two artistic directors) and starring Diana Rigg – received a preview season at Malvern this August. This week it starts an Almeida season of Racine in the West End's Albery Theatre. Then, at the end of October, Kent, Rigg, and the rest of the *Phèdre* team (which also includes Toby Stephens as Hippolytus, Barbara Jefford as Oenone, and Julian Glover as Theseus) launch a new production of Racine's *Britannicus*, in a translation by Robert David McDonald.

'The great thing about Phèdre and Britanicus is that they are rattling good yarns. What happens? You want to know. Which I love'

The Almeida – a theatrical space like no other, and uniquely actor-friendly – has launched a number of productions that have then taken off to West End (and sometimes Broadway) glory. The recent production of *The Iceman Cometh*, starring Kevin Spacey, is just the most recent example. But to propel a new production straight into the West End, and to choose Racine for the purpose, and to sustain an entire Racine season with a single team of British actors: this is triple audacity. (Meanwhile in Islington, the home Almeida Theatre will carry on with a series of other productions.)

Kent, an articulate enthusiast for his theatre and its repertory, recently spoke to me about this. "The thing about the Almeida is that it's just such an exceptional space. It sort of skews plays... take a play like Terence Rattigan's *The Deep Blue Sea*, which is so often patronised to. Now, when the 1993 Almeida production of that (with Penelope Wilton) went to the West End, it just retreated behind the Proscenium arch, became a conventional West End play, retreated to the time it had been written. Whereas, at the Almeida, it had been extraordinary. And, when I saw it in the West End, I thought "the play we *should* be doing here is *Phèdre*. The distance from the audience is important – so that the language can arc across the stage. And I think that the arc through which language can travel between actors and the audience, is what gives plays their emotional size, and their spiritual size as well."

Nobody in British theatre in the 1990s has done more than Kent to promote the French classical dramatists: Molière, Corneille, Racine. But he sees that, for the average English theatregoer, French classical drama is "an alien form. One has to make a mindshift, and help the audience make that mindshift too. The presiding genius of our culture is Shakespeare, who is a great democrat and humanist writer. He deals in long metaphor and great arcs of imagery. Racine – partly because of the Alexandrines he employed – deals in shards of language. So that the effect is much more adamantine, much harder, and less yielding than Shakespeare. That's difficult to come to terms with if you're not used to it.

"What I'm fascinated by in doing these plays is a sense of the man who wrote them. The great Molière comedies show the same benign spirit that Shakespeare has: and I think Molière is absolutely on a level with Shakespeare. But that is not at all what you feel with Racine: with him, you feel a tortured spirit. And a terrible, terrible difficulty and pain about life. The plays are so complex – the stage becomes a sort of torture-chamber – and his views on sex are so strange. Sex is always a disease, and it always comes with a sense of pain. That's true of all his plays. And desire has so often a sense of guilt.

"Somehow all of this makes him the most astonishingly radical – aggressive, erotic – playwright. Yet we tend not to think that. We think of a static, rather statuesque, slightly arid experience. Perhaps that's because of the glory of his language. But in fact he's highly theatrical. The great thing about *Phèdre* and *Britannicus* is that they are – as my father would say – rattling good yarns. What happens next? You want to know. Which I love.

"In Racine's plays, the stage becomes a trap. These people in these little landscapes, all arriving on this day and at this place at the same time, all at some sort of extremity. They keep trying to leave, but they keep being drawn back. They only really leave the stage to die. Racine's control of the form – in the rhythms of the play – is extraordinary. No scene is allowed to reach any sort of conclusion. Always another scene intrudes, and blazes its way across. So you, and the characters, are always left suspended. The play should be a sort of helter-skelter towards tragedy.

With Racine, the stage becomes a trap. These people in these little landscapes keep trying to leave, but they keep being drawn back. They only really leave the stage to die

Enthusiast: nobody in British theatre has done more than Almeida director Jonathan Kent to promote the French classical dramatists

"Of course, you can never reproduce in English the effect of the Alexandrines. What you need, and what we've been lucky enough to have with Ted Hughes, is a response. This is Racine seen through the prism of Hughes's – I'd go so far as to say – genius. You don't want anything slavish, because translation isn't a plateglass window through which you see the play unalloyed. The personality of the translator has to be there. A translation is a dialogue between the time and place in which the play was written and the time and place in which it's being performed. And both sides of the conversation must have their voice. That's what's great about the Hughes version: it's a dialogue between these two great poets.

How is Kent handling the classical style of these plays? "You have to honour the source material. That's what I mean about both sides of the conversation. I am doing *Phèdre* in 17th-century costumes, as *contemporary to* Racine. One could do it in Greek costumes: I'm sure you've seen those pictures of umpteen old French productions with embarrassing togas and things. *Britannicus* I'm doing as contemporary to us. What's wonderful about that play is that it's a sort of theatrical thriller.

"Energy is crucial. If I have one particular failing, it's in sometimes making things too loud – because I want to release energy. Energy is quite often too contained. But when you think that Montfleury had a stroke and died on stage as Oreste in Racine's *Andromaque*... when you read about Racine's theatre, you find that speeches would be interrupted five or six times with bursts of applause. It was a boisterous rough theatre, and yet with this astonishing sophistication of language. That's the amazing schizophrenia of these plays."

EXHIBITIONS SUMMER SHOWS IN EDINBURGH

Explorations of intrigue and love

William Packer enjoys Roman politics and Stuart tragedy in two shows linked by the 17th century

Active and virile: Bernini's self-portrait

This year the main summer shows at two of Edinburgh's leading public institutions take their subject from the 17th century. They could hardly be more different: one is a scholarly study of sculptural rivalries and clerical patronage in Rome; the other a full and rich account of the life of an ill-fated Stuart princess. The tenuous link between the two is a long-lost portrait bust, commissioned from Bernini, the subject of the first exhibition, of the equally ill-fated Charles I, the brother of the subject of the other exhibition.

Lost in a fire in the Palace of Whitehall in 1698, we know of its existence by the triple portrait by Van Dyck – two profiles and full-face – which Henrietta Maria, Charles's queen, had sent to Rome for Bernini's benefit; and by a fragment of the face, only lately come to light, cast in plaster from the original and subsequently embellished with angel's wings to honour the martyr king. It is a remarkable object, poignant in its immediacy for all its chips and scratches, and fresh, so it seems, from the master's hand.

Effigies & Ecstasies sets this and other commissions against the background of Bernini's Rome, with all its politickings, favouritisms and intrigues. With St Peter's and the Baroque city still taking shape, it shows us drawings and models for all the major architectural and devotional projects. We are also shown Bernini himself, in images that take us from the young prodigy of the 1620s to the ageing master 50 years on. His own drawings, notably his self-portraits, are at once virtuoso demonstrations in the grand baroque manner, and the most tender and intimate of inquiries. There is also a group of his paintings from the 1620s, vigorous Caravaggesque half-lengths of assorted saints, surprisingly free and direct in their modelling.

Bernini's drawings are at once virtuoso demonstrations in the grand manner, and the most tender and intimate of enquiries

But the heart of the show lies with the portrait busts and, in a handful of the finest examples, the direct comparison to be made between Bernini and his contemporaries, particularly Alessandro Algardi. What comes out of it is an awareness not so much of superiority, but of the differences of character and temperament. Bernini, for all the clerical dignity of such sitters as Carlo dal Pozzo, Archbishop of Pisa, is nonetheless active and virile in the image he projects. Algardi is the more reflective and passive in his monumentality, though moderated by the deftest personal touches. Give Bernini his head, as it were, as with the endearing portrait of Thomas Baker, the swanky young Suffolk squire, and there is no limit to the extravagance of what he can do with curls and lace.

Elizabeth Stuart, the Winter Queen, is barely remembered today except by students of the Thirty Years War. Yet she deserves better, for she left her mark. In 1612 James I, her father, gave her, aged 16, to Frederick, the Elector Palatine, in an arranged marriage as a Protestant counter to the marriage of his son, Charles, to the Catholic Henrietta Maria. Although it proved a love match, their lives together were to be dogged by disaster and tragedy. Frederick, a pawn in the imperial and religious politics of the time, was persuaded to accept the throne of Bohemia. Defeated by the Catholic League at the Battle of the White Mountain in 1620, he and his young queen fled Prague, his capital, never to return, both kingdom and palatinate lost for ever. The Prince of Orange gave them refuge at The Hague, where they kept their modest court. Frederick died at Mainz in 1632, and Elizabeth wore mourning for the rest of her life – though apparently she habitually wore low necklines.

The widowed Elizabeth returned to England after the Civil War in Britain, in hope of recovering some of what she felt was owed her. She died in 1662.

Such is the touching story of the Winter Queen. And in her likenesses, from the ravishing 14-year-old princess, full length in her rich court dress, by Robert Peake; to the wistful young wife in exile, with her long loose hair and strings of pearls, by Mierevelt; to the handsome, dignified widow that Honthorst so often represented, she comes wonderfully to life, with her beloved husband and all the characters of her life and times about her.

Effigies & Ecstasies – Roman Baroque Sculpture & Design in the Age of Bernini: The National Gallery of Scotland, The Mound, Edinburgh, until September 20; sponsored by Banca di Roma, and the Henry Moore Foundation. The Winter Queen – the Life of Elizabeth of Bohemia 1596-1662: The Scottish National Portrait Gallery, 1 Queen Street, Edinburgh, until October 4; sponsored by Baillie Gifford & Co.

INTERNATIONAL Arts Guide

BILBAO

EXHIBITION
Guggenheim Museum Bilbao
Tel: 34-4-423 2799
www.guggenheim.org
China - 5,000 Years: organised in collaboration with the Ministry of Culture of the People's Republic of China, comprising 500 works of art ranging from the Neolithic to the contemporary. Many of these objects have never before been seen outside China; to Sep 1

BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-212 3333
Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Strauss, Berg and Tchaikovsky; Sep 5

BRUSSELS

CONCERT
Palais des Beaux Arts
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Salonen and Sibelius; Sep 2

BUDAPEST

EXHIBITION
Hungarian National Gallery, Buda Castle
Tel: 36-1-375 7533
Jozsef Rippl-Ronai: retrospective of the Hungarian post-Impressionist, comprising 250 works. Includes decorative art objects and personal photographs and letters as well as paintings loaned by private collectors and museums; then *transferring* to Saint-Germain-en-Laye near Paris; to Sep 6

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Japan 2000: Design for the Japanese Public. Part two of the series focuses on the G-Mark system, which promotes good design. Includes watches and bicycles; Kisho Kurokawa Gallery; to Sep 7

EDINBURGH

OPERA
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
● Dalibor: by Smetana. New Scottish Opera production by David Pountney. With sets by Ralph Koltai and costumes by Sue Willmington. The conductor is Richard Armstrong; Edinburgh Festival Theatre; Sep 3, 5
● Libuše: by Smetana. Concert performance by the BBC Scottish Symphony Orchestra and the Edinburgh Festival Chorus, conducted by Oliver von Dohnányi; Sep 4

THEATRE
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
● Caligula: by Albert Camus. Dutch performance with English subtitles, directed by Ivo van Hove; the Edinburgh Playhouse; Sep 2, 3
● More Stately Mansions: by Eugene O'Neill. Adapted by Karl Ragnar Gierow from O'Neill's unfinished manuscript. Ivo van Howe directs the New York Theatre Workshop; Royal Lyceum Theatre; Sep 1, 2, 3, 4, 5
● Phèdre: by Racine. New Théâtre Vidy-Lausanne production, directed by Luc Bondy; King's Theatre; Sep 2, 3, Sep 4, 5

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Singers: conducted by Jane Glover in works by Britten, Kodály, Elgar, Szymanowski and Parry. With the Choristers of Guildford Cathedral; Sep 4
● BBC Symphony Orchestra: conducted by Manfred Honeck in works by Webern, Beethoven and Prokofiev. With piano soloist Alfred Brendel; Sep 2
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in the European premiere of Harrison Birtwistle's Exody. The programme is completed by Mahler's Symphony No. 5; Sep 3
● European Union Youth Orchestra: conducted by Vladimir Ashkenazy in works by Berg and Strauss. With soprano Barbara Bonney; Sep 5
● Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by John Adams, Mahler and Sibelius. With mezzo-soprano Lorraine Hunt; Sep 1

EXHIBITIONS
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses on his relationship with language, and includes sound and video installations as well as neon pieces such as One hundred live and die (1984); to Sep 6

Tate Gallery
Tel: 44-171-887 8000
Patrick Heron: b. 1920, Heron is one of the leading figures of 20th century British art. He led the development of abstract art in Britain with his stripe paintings produced in the 1950s. This display includes around 80 paintings, from the 1930s to the present; to Sep 6

LUCERNE

CONCERTS
International Festival of Music
Tel: 41-41-226 4400
www.LucerneMusic.ch/
● Amsterdam Baroque Orchestra: Ton Koopman conducts works by Mozart. With soprano Lisa Larsson, contralto Elisabeth von Magnus, tenor Paul Agnew and bass Klaus Mertens; Sep 6
● BBC Symphony Orchestra: Andrew Davis conducts works by Ravel, Mozart, Walton and Elgar. With pianist Richard Goode; Sep 7
● Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Salonen and Stravinsky; Sep 3
● Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Strauss and Bruckner. With soprano Gundula Janowitz; Sep 4
● Royal Concertgebouw Orchestra: conducted by Riccardo Chailly in works by Debussy and Varèse. With soprano Sarah Leonard; Sep 5
● Saint François d'Assise: by Messiaen. Concert performance of the Salzburg Festival production, with the Hallé Orchestra and Arnold Schoenberg Choir conducted by Kent Nagano. The staging is by Erwin Ortner and the cast includes José van Dam and Dawn Upshaw; Sep 1

NEW YORK

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
● Peggy Guggenheim: A Centennial Celebration. To mark the 100th anniversary of Peggy Guggenheim's birth, the museum has organised a display of paintings and sculptures from her collection, one of the most impressive of all 20th-century art collections; to Sep 2
● Vilhelm Hammershoi (1864-1916): Danish Painter of Solitude and Light. Retrospective seen in Copenhagen and Paris last year, comprising 60 works by this relatively unknown contemporary of Munch. Includes portraits and landscapes as well as interiors; to Sep 7

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Sir Edward Burne-Jones: first American exhibition devoted to the 19th-century British artist, comprising more than 200 works, including tapestries and jewellery as well as paintings. The exhibition will travel to Birmingham, UK, in October and to Paris next year; to Sep 6

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Gianluigi Gelmetti in Rossini's Petite Messe Solennelle; Sep 6
● Japan Shinsei Symphony Orchestra: conducted by Antonello Allemandi in works by Rossini; Sep 5
● Orchestra Filarmonica della Scala: conducted by Riccardo Muti in works by Schumann and Tchaikovsky; Sep 2
● Orchestra Filarmonica della Scala: conducted by Riccardo Muti in works by Verdi; Sep 3
● Tokyo Metropolitan Symphony Orchestra: conducted by Ken Takaseki in works by Reger and Beethoven; Sep 4
● Tokyo Philharmonic Orchestra: conducted by Kazushi Ono in works by Tchaikovsky and Ravel; Sep 1

EXHIBITION
Museum of Contemporary Art
Tel: 81-3-5245 4111
At the End of the Century: One Hundred Years of Architecture. Touring exhibition reflecting on a century of dramatic change, from early 20th-century colonial architecture through modernism and the Bauhaus to the rise of theory and skyscrapers. The installation is designed by Frank O Gehry; to Sep 6

TURIN

CONCERT
Lingotto Fiere
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Schoenberg and Bruckner; Sep 7

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Artists and the Avant-Garde Theater in Paris: exhibition exploring the dynamic relationship between the visual and performing arts which developed in Paris in the 1880s and 1890s; to Sep 7

One country, two systems, big crisis

The Hong Kong government has undermined its credibility by intervening to prop up the stock market, says **John Ridding**

Newspapers have portrayed Joseph Yam, the head of the Hong Kong Monetary Authority, standing behind a tank firing missiles at speculators. But in reality he was firing blanks. Yesterday, the government stepped back from its extraordinary intervention in the stock market after spending almost US$15bn (£9bn) in two weeks forcing up share prices – 15 per cent of its US$96.5bn foreign exchange reserves. The Hang Seng benchmark index plunged 7 per cent.

"It was absolutely the right thing to do," said Philip Moffitt, executive vice-president of Tokai Asia, the investment arm of Japan's Tokai bank. Intervention was proving unsustainably and unexpectedly costly. But, he added, the retreat was likely to prove tactical and temporary and he warned of "a big risk" that Hong Kongers could panic if the market falls sharply.

The stakes stretch far beyond the stock market. With turmoil sweeping world markets, the Hong Kong dollar looks to be among the most vulnerable of candidates for the next collapse. As the post-colonial administration gambles with its credibility, the battle for the Hong Kong dollar is a political test as well as a financial crisis. Loss of public confidence would imperil the currency peg to the US dollar, the linchpin of the financial system. By intervening to prop up the stock market, the administration has already damaged its reputation as a free-market financial centre.

Hong Kong's crisis poses a challenge for Beijing, which is anxiously eyeing the problems in the capitalist prize it acquired last year. Nor is China alone in its worries. The dislodging of Hong Kong's currency peg could accelerate Asia's vicious cycle of decline. As the region's biggest financial centre outside Japan, international banks are preoccupied with Hong Kong's problems. HSBC, one of the world's biggest banks, derives a significant chunk of its profits there.

Much depends on whether the government can engineer a soft landing in the stock market. While alarming, yesterday's plunge is not evidence that it has failed. The government's intervention was aimed at deterring the so-called "double play". This is a tactic by which speculators take "short" positions on the stock market futures index while selling Hong Kong dollars; the aim is to put pressure on the currency, driving interest rates up and pushing shares lower, thus realising profits on the futures contract. "We suffered losses," admits a senior executive at one hedge fund. "I guess they had a victory on Friday [when the government spent US$7bn in a day]."

But the sharp fall underlines the daunting task facing the administration. Many traders are biding their time, rolling over their short positions from the August contract to September, sensing that the Hang Seng index, still almost 10 per cent above the level where intervention was launched, remains a tempting target.

Government officials reject claims they are at war with speculators, saying they are trying to restore order to the markets by blocking the "double play". But Mr Yam himself signalled that any gains had been costly. "By the look of it they [the hedge funds] are very much alive in the currency markets," he told a local newspaper.

Other measures are being introduced, including a sharp increase in the cost of holding large futures positions, which took effect yesterday. But as with the stock market intervention, which encouraged many fund managers to dump shares at high prices, these moves could backfire.

Interbank interest rates shot up yesterday, with the overnight rate climbing above 20 per cent. The surge partly reflected concerns about the change in rules and the need to collect funds to cover the higher costs. Unless these rates can be brought down it will be hard to avoid a rise in bank prime lending rates soon. That would deal a further blow to the battered economy, which is expected to contract by 4 per cent this year, according to government forecasts released last week.

The rise in interest rates partly reflects broad disaffection on the part of international investors worried about a significant shift in Hong Kong's business culture. "After the reunification of Hong Kong and China, the big fear was that you would see the dismantling of free market principles," says Mark Konyn, director of Dresdner RCM, the fund manager. "The stock market is a monument to those principles and yet within 15 months of the handover there has been a major intervention."

Martin Lee, leader of the Democratic Party, the territory's most popular political group, also says: "This is a huge cost to our standing as a financial centre. Instead of the government being a regulator it is now a player."

But so far, most opinion in Hong Kong has been more supportive. Business leaders have generally expressed backing, perhaps not surprisingly since many have benefited from the purchase of blue chip shares. And a poll published in the Sing Pao daily showed 58 per cent in favour of the move, against 37 per cent opposed. "People are rallying behind the government because they see it as a battle," says K.C. Chan, head of the finance department at Hong Kong University.

But if the government is to retain that support, it cannot afford to lose the battle it has begun against currency speculators. After yesterday's retreat there were already grumblings. "It looks like they have been forced to give up," said one retail investor. High interest rates and falls in property prices will increase public pain, particularly given that 15 per cent of homeowners are already suffering from negative equity.

"The real tragedy is that this is sowing the seeds for significant domestic disquiet," says Mr Moffitt. "When people realise their money is being wasted then there could be social problems and that will make Hong Kong a less attractive place to invest."

A more immediate danger is that failure would undermine the credibility of the government. A string of mishaps over recent months, including the fiasco of the airport opening, has prompted a steady fall in support for Tung Chee-hwa and his administration. "They are seen as incompetent," says Emily Lau, a legislator and vocal critic of the government. Public satisfaction with Mr Tung has fallen from a peak of more than 85 per cent last October to just over 55 per cent last month.

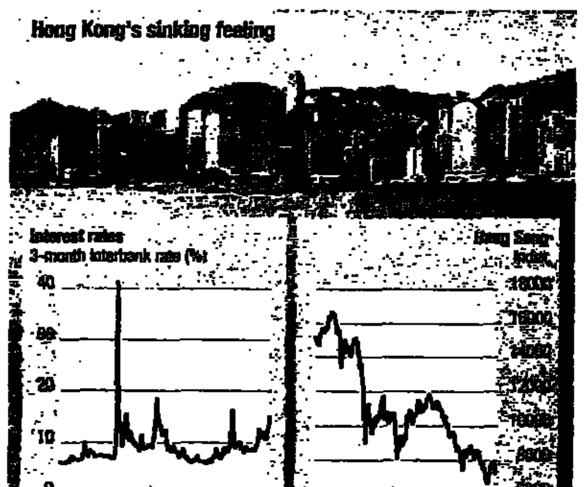
Under the terms of the Basic Law, Hong Kong's post-colonial constitution, the territory's leaders cannot be replaced. That might provide them some comfort. But it also presents the danger that disaffected Hong Kongers will vote with their dollars. A switch into the greenback would scupper the peg.

None of this is lost on Beijing, which has much at stake in Hong Kong, its main source of the international capital required to help restructure state-owned industries. Last weekend, a senior mainland economist signalled that China would be willing to use some of its foreign exchange reserves of US$140bn if necessary.

Practical assistance, however, would be complex and controversial. With unemployment rising rapidly on the mainland and the economy slowing, it would be hard to justify using China's foreign exchange reserves to support affluent Hong Kong. International investors, already alarmed at the Hong Kong government's intervention, would take fright at mainland money buying blue-chip shares. Chinese companies have strategic stakes in many Hong Kong companies but a general move would undermine confidence in the "one country, two systems" formula.

That formula, and its guarantee of autonomy for Hong Kong, was meant to protect the capitalist territory from the mainland. Instead, and with painful irony, the problems have emerged at home. The one system that is Hong Kong must now manage itself out of crisis and it is looking like an uphill task.

Hong Kong's sinking feeling



LETTERS TO THE EDITOR

Safety first? Not for Reuters . . . we're out of a niche and on the web

From Mr Peter Job.

Sir, A wet Sunday gave me a chance to peruse the FT web site for the article "Poverty of ambition" (August 21) by Hugo Dixon, which mentioned Reuters. A rapid 30-day word search locates his habitual description of us as an anorexic company which, for lack of ambition, clings to a financial information niche.

On to the rest of the FT site. Very informative, with distinctive news analysis. Good to see acknowledgement of Reuters news here and there, particularly Reuters Television, which *inter alia* offers video clips on the web.

The site has useful descriptions of newish Reuters web sites, including SportsWeb and our commodities and energy site, though no mention yet of our health news site, popular in the US.

Another click of the mouse, this time on the AltaVista site, locates 652,690 internet references to Reuters – this is mainly because we were the first to distribute news through virtually all the big internet outlets (before they became big). We have investments in several of them.

If people want more detail they can go through the internet to our Business Briefing database, with 10 years of history on a huge array of serious subject matter drawn from our own news wires and several thousand other publications. With electronic commerce taking off, investors can find our company news at numerous electronic brokerage sites and even use our software to see their account, or to trade.

Maybe they want to know how their mutual funds are performing. If so, they can go to Reuters corporate web site, *www.reuters.com*, to find indices from Lipper Analytical Services, the leading US funds information provider, which Reuters recently acquired.

What was it that Mr Dixon said again? "Surely Reuters was well-positioned to move into other online services and the internet. But no. Safety first. It has stayed largely in its niche."

Hmm . . . The writer should have done a bit of surfing in the August break, and I do not mean the Cornish beach variety.

Peter Job,
chief executive,
Reuters,
85 Fleet Street,
London EC4P 4AJ

Boris Yeltsin never read Macbeth

From Mr Robert Ellmann.

Sir, I write with reference to "Who lost Russia" (August 28). There is good, bad and ugly in the present Russian turmoil.

The good: Russia must be a market economy already, and no longer in transition, because it has collapsed as a market economy would – currency, capital and equity markets.

The bad: the success of implementing the market in Russia has led to nothing much, except the publication of a bunch of ghastly "market how-to" books by dime-a-dozen university economists.

The ugly: the Russians will never, ever implement successfully a European idea. Lenin never understood Marx's books. Mikhail Gorbachev never understood Margaret Thatcher's privatisations. And Boris Yeltsin never read Macbeth.

Robert Ellmann,
Vana, Pergl & Partners,
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Czech Republic

Politically correct 'reunion' poses problems

From Mr Michael Wood.

Sir, In her Personal View article "A most exclusive club" (August 26), Kirsty Hughes refers to "reuniting Europe". When was it united?

If this politically correct concept is based on re-establishing the (imagined) long-term stability of the Roman Empire, then surely the European Union should be engaged in urgent talks with the countries of north Africa and the Middle East.

This would, of course, raise the problem of what to do with all those European territories lying north of the Rhine!

Alternatively, she could be harking back to the short-lived efforts of Karl der Grosse (with apologies to the Francophiles), in which case east Europeans should understand that they are simply modern sacrificial Saxons and must bear their pain if they want admission to heaven.

Michael Wood,
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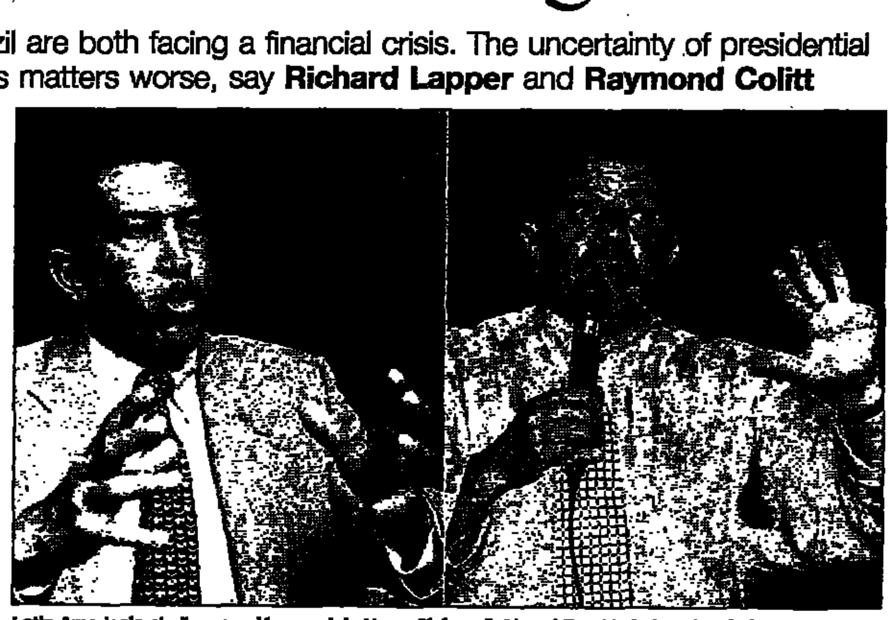
We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax +44 171-873 5938. Letters should be typed and not hand written.

Back in the firing line

Venezuela and Brazil are both facing a financial crisis. The uncertainty of presidential elections makes matters worse, say **Richard Lapper** and **Raymond Colitt**

Latin America managed to defend itself against the first onslaught of the Asian crisis thanks largely to the vigour with which Brazil cut spending and raised interest rates. Now the pressure is on again, more intense than ever, because of the Russian crisis.

This time, the country most in the firing line is Venezuela. The growing popularity of a leftwing movement there led by Hugo Chávez, a charismatic former army officer, is adding a political dimension to the region's financial crisis. If Venezuela's currency collapses, it will be all the harder for the bigger economies of the continent – most importantly, Brazil – to retain international confidence and prevent a new flight of portfolio investment. For US companies that could have a bigger impact than the Asian crisis: through direct investment and trade, they have more at stake in Latin America than in any other emerging market region.



Latin America's challengers: Venezuela's Hugo Chávez (left) and Brazil's Luis Inácio Lula da Silva

For much of the year Venezuela has been struggling as a result of the slump in the price of oil, which has fallen from nearly $22 a barrel last September to less than $13 a barrel now. The country, which accounts for 6 per cent of world oil exports and is the main supplier to the US, relies on oil for nearly half of its public sector income and more than two-thirds of its export revenues. The decline in oil prices, which partly reflects falling demand in Asia, has reduced government income, leaving Venezuela with an expected fiscal deficit of 5.3 per cent of gross domestic product. Many analysts think a devaluation is unavoidable.

Over the past few weeks investors have become increasingly worried by political uncertainty ahead of December's presidential election, especially by signs of growing support for Mr Chávez, who is now favourite to win. The Caracas stock market has plunged 24 per cent in the past two weeks; it has fallen over 70 per cent since the beginning of the year (only a little better than Russia, which has fallen 83 per cent). Venezuela's international bonds are trading at levels that imply expectations of a default. On Friday afternoon, yields on some Venezuelan bonds reached 40 per cent.

Mr Chávez came to prominence when, as a lieutenant-colonel, he led a bloody but unsuccessful military coup six years ago. After a period in jail he has emerged as the most prominent opponent of the government's programme of economic liberalisation; a fierce critic of corruption and mismanagement; and an advocate of far-reaching constitutional change. These are all characteristics shared by another former general turned presidential hopeful, Alexander Lebed of Russia.

Earlier this year local analysts wrote off Mr Chávez's opinion poll showings as a flash in the pan. But his popularity has been repeatedly confirmed over the past five months. A recent poll by the Datanalisis polling organisation showed that 46 per cent of Venezuelans intended to vote for Mr Chávez in December, 19 points more than his nearest rival.

In recent weeks, local businessmen who have long been worried about Mr Chávez have been buying dollars, forcing the government to raise short-term interest rates to defend the bolivar, the local currency. And over the last two weeks in the wake of the Russian debt default, Mr Chávez's hints of a possible moratorium on Venezuela's debt repayments have assumed a new significance. "I think events in Russia have focused people's attention on what Chávez has said," says Francis Freisinger, head of Latin American economics at Merrill Lynch in New York. "In other countries you have a fair idea about what the policy will be after the election. But in Venezuela there is tremendous uncertainty about the future."

Venezuela may be unusual but it is not unique: some of its problems appear elsewhere. Brazil is also in the midst of an election campaign while struggling with a large budget deficit and a falling stockmarket. Its fiscal deficit – which reached 7 per cent of GDP in May – and sizeable current account deficit have been a source of concern for some time. "The markets are so nervous," says Mr Ian Campbell, head of Latin American Research at Banc-Boston Securities in Boston. "A Venezuelan devaluation would give the impression that contagion is spreading to Latin America."

Brazil is taking a mauling on the markets. Last week, shares on the São Paulo stock exchange fell by 13 per cent. Yields on one class of widely traded bonds rose by more than 4 per cent over the course of the week to nearly 24 per cent. So far there has been no sign that any of this will influence the result of Brazil's presidential elections in October, in which President Fernando Henrique Cardoso still enjoys a strong opinion poll lead over Luis Inácio Lula da Silva of the leftwing Workers' Party.

But further falls in the bond markets will put pressure on the government to increase interest rates to defend Brazil's currency, the real, and that in turn would increase the burden of servicing the domestic debt. Brazil has room for manoeuvre – it has some $67bn in international reserves – and should be able to defend itself for some time.

But there is little doubt that the shift in investor sentiment is changing the economic outlook for next year, when Brazil may need to borrow as much as $50bn abroad in order to service its current account deficit and pay off creditors.

Analysts are worried that it will be more expensive and more difficult for the government to raise debt finance, and that it will be harder for big foreign companies to raise the money needed to fund ambitious investment plans.

"I am afraid that investment programmes will be revised downwards," says Mr Freisinger, who is one of a number of economists taking a more pessimistic view of growth prospects.

Even if the panic of recent weeks eases, Brazil – like the rest of Latin America – faces tough times. If it does not ease, Latin America could move from the outpatients' department of the global market hospital to the emergency ward.

FINANCIAL TIMES

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Tuesday September 1 1998

Howard's way

Australia's John Howard may come across as a colourless prime minister, but he has shown some deft political skills in calling an election before the full force of the Asian downturn hits the local economy. Thanks to the launch of a national debate on tax reform, he has wrong-footed Pauline Hanson's anti-immigrant One Nation party and ensured that the campaign will not end up an unseemly battle over racial issues as had once been feared.

Yet it would be rash to suppose that the outcome will be entirely benign. Ms Hanson's support has been waning, partly as a result of the unimpressive performance of her party in the Queensland parliament and partly because she now faces the hard test of putting forward real policies rather than just sniping from the sidelines. The social and racial pressures which sparked her original success remain, however, and will almost certainly intensify as the economy deteriorates.

Mr Howard's Liberal-National coalition may thus win a majority in the lower house, but it is most unlikely to control the Senate where One Nation could even hold the balance of power. That could make implementing tax reform difficult – a pity since Mr Howard's proposals would help modernise Australia's antiquated tax system by introducing a consumption tax.

Australia is rare among advanced economies in being without such a tax, and its public finances are distorted as a result. The consumption tax would not only help finance large cuts in personal tax: it would also pave the way for other reforms. Taxation of financial services would be reduced, helping Australia compete as a financial centre. Exporters would be able to claim rebates – just as their competitors receive on value added tax in other countries – whereas they are unable to reclaim anything on the existing wholesale tax.

In contrast, the Labour opposition offers a more modest targeted tax credit for low earners. This would have the advantage of encouraging people to move off welfare and into work, but the overwhelming disadvantage of creating a very high marginal tax rate at the threshold where the tax credit falls away.

Labour is gambling on the hope that the electorate's visceral dislike of a consumption tax will hurt the coalition's chances, Mr Howard on the hope a larger tax cut will persuade people to swallow the new tax. Voters thus confront a real choice between mainstream parties which will marginalise smaller groupings like One Nation.

The real question is what comes after the election. Mr Howard has demonstrated talent as a fixer. With the Australian dollar at record lows and tax reform to push through there will be a lot to fix.

Gore's calls

Al Gore has made strenuous efforts to avoid fall out from the troubles which threaten to engulf Bill Clinton's presidency. But now Janet Reno, the US attorney-general, has reopened an investigation into Mr Gore's fundraising in the 1996 election. The vice-president could soon have a special prosecutor of his own.

Last year's inquiry into White House fundraising found that Mr Gore had telephoned potential donors from the White House. This could be illegal under a century-old law that prohibits the solicitation of campaign funds on federal property. Ms Reno has so far rejected Republican demands for a special prosecutor because Mr Gore said he only solicited "soft money" for general campaigning, not hard money for individual candidates.

However, the Justice Department has obtained a White House memorandum, and notes from a Gore aide, that suggest the vice-president may have known all along that some of the cash he helped raise would be illegally diverted.

The issue is whether Mr Gore lied when he told the Justice Department and the FBI last November that he was unaware [illegible] money would end up in an account for hard money. Ms Reno, under immense Republican pressure, has 90 days to decide whether these revelations merit a special prosecutor.

Allegations that Mr Gore violated the law by fundraising from his office are trivial in the context of an election campaign during which both main political parties ignored the spirit if not the letter of the law on a large scale. But this affair adds fresh complications to the troubles of the Democratic party.

First, as Mr Clinton knows better than anyone, a special prosecutor can always seek to expand his enquiries if evidence is found of extended wrongdoing. While Mr Gore's alleged offence is small, there are much more serious questions about the White House's broad approach to fund raising in 1996, including the possibility of illegal foreign contributions. If a prosecutor starts pulling on this thread, the unravelling process could take years – and lead anywhere.

Second, any problems for Mr Gore would have a direct impact on Mr Clinton's own position. In the coming months, it is possible that Democrats on the Hill will have to decide whether they are going to stick with their president. At the moment, they have an alternative in the shape of the wooden but respectable Mr Gore. But if he is also under investigation, the calculations would change. It is a measure of Mr Clinton's weakness that he could actually benefit, at least in the short term, from the troubles of his anointed successor.

The tide turns

Stock market jitters, the fallout from Russia's default, a stumble in the housing market and mounting evidence of economic slowdown. In Britain – as in the US – the authorities face a sharpening dilemma over their next move on interest rates.

The main difference is that in the US, inflationary pressure remains weak. UK wage pressures are still too strong for comfort, although perhaps starting to ease. Even with base rates at 7.5 per cent, most forecasts suggest the Bank of England will do well to hit its 2.5 per cent inflation target next year.

But the outlook may be changing. Last week's industrial trends survey from the Confederation of British Industry showed manufacturers' orders at their lowest for five and a half years, while price expectations in recent months are the weakest on record.

The strong pound was bound to squeeze manufacturers. And relatively buoyant retail sales and consumer credit continue to give disturbing evidence of a two-speed economy. But although CBI trends surveys are restricted to manufacturing, they have proved of wider significance. Data on skills shortages have, for example, proved a good indication of overheating. This measure now suggests that a fairly sharp fall in output is needed to reduce inflationary pressures.

Next week's meeting of the Bank's monetary policy committee, must therefore consider, not whether to allow such a retreat in output – that is inevitable and desirable. It must consider the chance of it becoming a rout.

The CBI, like the Bank, expects output growth to slow to little more than 1 per cent next year, with unemployment rising by some 130,000 people. At least a year of such slow growth is probably needed to return the economy to its trend rate of growth and so control inflation.

But the MPC must also raise its eyes above the domestic horizon, to the threat of financial turmoil in the rest of the world. The crisis in south-east Asia has already depressed its forecast for growth. Now the question is whether the risk of a collapse in world financial confidence – and equities – might warrant some concerted easing of interest rates.

The MPC's primary duty must be towards the UK economy. Even so, a general decline in interest rates would make its present monetary stance seem tighter, while a 20 per cent fall in equities could reduce prospects for growth by perhaps 0.2 percentage points. This looks small in itself but it could cause wider ripples, especially if UK house prices really have started to retreat.

For such reasons, the MPC must now start to ask when it should cut rates. The answer is probably not quite yet.

Japan's silent losers

Victims of the country's slow-burning economic crisis are unwilling to make the kind of public protest that could presage real change, says **Gillian Tett**

Takako Shoji, a 57-year-old widow, is facing a bleak future. Three months ago, she lost her job at an animal health products company and dutifully visited her local job centre to find another.

Though the centre is optimistically dubbed Hello Work! – or *Haro Wahku!* – it refused to help because of her age. Her unemployment insurance is due to run out in six months but she cannot start her pension for three years. "Under Prime Minister Obuchi," she says, "the economy will not improve. No one can have hopes for the future."

Her pessimism is understandable. Less predictable is whether people like Mrs Shoji are prepared to complain. There is no shortage of things to complain about. Unemployment hit a record 4.3 per cent in June and is projected to reach 5 per cent by the end of the year. Average income per household fell by 1.8 per cent in the year to June, or by 4.9 per cent excluding tax breaks.

But thus far, there has been little sign of the type of public revolt that might force real change. Voters delivered a rebuke to the ruling Liberal Democratic party by ousting the LDP from some seats in the upper house of parliament in a July election. But the LDP still has little sense of crisis within its ranks. And in sharp contrast to countries such as South Korea, Japan has not yet seen the widespread protests that might presage a U-turn.

"There are parallels between Japan now and the UK in the 1970s, only without the miners' strike," says Kevin Gibson, a UK fund manager who, like many investors, is scouring Japan for signs of change. "So I am wondering if maybe things are just not bad enough yet to really affect people."

The suspicion is half right. As Mrs Shoji's tale shows, Japan's economic upheavals are creating losers. But it is not yet creating them in a politically explosive way, or even in a manner that outside observers might expect.

Japan's crisis is slow-burning. Its neighbours, such as South Korea, might have crashed last year but Japan's deterioration has lasted the entire decade. The value of land – a key component of family wealth – has crumbled for seven years. The stock market has never risen far from its post-bubble plunge. Even the rise in the jobless rate has been stealthy, not sudden.

Furthermore, pain is still being deferred. For the most part, companies are extremely reluctant to make their workers redundant, even when they are heavily in debt. And though reliable statistics on household wealth are lacking, with an official Y1,200,000bn (£5,063bn) of national savings, many Japanese families still have money to cushion blows.

To see how, look at an economic black spot such as Wakayama in central Japan. The town is a mere one hour plane journey away from the capital. But it is a sharp contrast to the still-wealthy parts of central Tokyo, such as Ginza, which most foreigners know. Shops in Wakayama's centre are empty of customers, and many are boarded up. A homeless woman in her twenties crouches at a street corner.

The only point of bustle is the local Hello Work! centre; unsurprisingly. Wakayama's effective unemployment rate climbed to 12.2 per cent in July, after two of the city's largest banks collapsed. Asagawagumi, the biggest construction group in the region, has also failed. Meanwhile, new job offers at timber and chemical companies – large local employers – are down by an annual 80 per cent and 59 per cent respectively, reflecting the corporate squeeze faced by Japan's traditional industries.

"You've heard of a deflationary spiral? We've got one here in Wakayama," says Nobuki Yamamoto, an employee at Hello Work!. "People do not want to buy anything except the basic essentials because they think it could get cheaper in the future."

But even in Wakayama Mr Yamamoto is not expecting mass protest. Most lossmaking companies, he says, are reluctant to fire staff. And most of his contemporaries are making ends meet. "People often say that even if Japan falls into a depression, people will still eat well," says Mr Yamamoto. "Things are just not that bad yet."

There is a second reason for the silence: the age profile of the unemployed. For Japan's "job for life" culture means that most companies who are forced to cut workers prefer to do so discreetly, by, for example, introducing early retirement programmes, cutting women of marriageable age, or not hiring graduates. Consequently, the fastest growth in joblessness is occuring among two groups: the 16- to 24-year-olds and those over 54.

You might think that the 16- to 24-year-olds would be the ones most likely to protest in public. However, this youth unemployment does not appear to have created a dangerously disaffected group . In Japan many unmarried children live with their parents, which shields them from the immediate economic pain. "I can afford to wait until the recession ends," confesses Shigemi Suzuki, 30, who has been job-hunting fruitlessly for several months around Tokyo – but like most of her contemporaries is still supported by her parents.

'You've heard of a deflationary spiral? We've got one here in Wakayama'

And some young jobless people are also proving relatively flexible in their job search. Yuko Kunugi, 23, an architectural design graduate in her twenties, for example, says that many of her unemployed friends went to graduate school or moved overseas to avoid the job market altogether. Meanwhile, Takako Shimuzu, 29, a former salesgirl of Takashimaya, a department store, has voluntarily quit her job. She now does temporary work – and says she prefers to opt out of Japan's system of lifetime employment to receive higher pay. "The unemployment rate has finally got high enough here that we are returning to a healthy system. I have always thought that all those old men who are wasting time as managers and executives should not be getting those high salaries anyway."

These "old men" – and women – are less well placed to adapt. Indeed, it is the middle-aged who often appear some of the greatest losers. For they face an increasingly uncertain pensions' future: the budget deficit is ballooning towards 6 per cent of gross domestic product, and company pension schemes are underfunded by some Y60,000bn, according to data from Daiwa Research.

For those who do lose their jobs, the squeeze can be grim. Ikuo Hotta, 55, a former manager with Yamaichi Securities which collapsed last year, for example, has spent months searching for a job, before finally finding work at a construction company. This makes him luckier than some: Mr Hotta says that many middle-aged female colleagues at Yamaichi have yet to find work. But he now earns Y250,000 a month, a third of his former salary.

"I had planned to retire at 65, but now I think I will have to work after that to support my family and finish the loan repayment on my house," says Katsuhiro Wada, 54, a former employee of Nissan Mutual, the life insurance company that also collapsed last year. He eventually found a job at a medical equipment company. But this is also half his former salary. "I used to travel abroad, and enjoy my hobbies – playing golf, fishing and taking singing lessons. But I cannot do that any more."

So, though some middle-aged people may be suffering, they also appear the section of Japanese society least likely to protest in public. For unlike Japan's 20- to 30-year-olds who possess brash bubble-era confidence, Japan's middle-aged grew up with a stoic commitment to duty. The recent years have left many nursing a deep sense of disillusionment. But politics is considered something best left to the "experts". Suffering in silence, in other words, remains the norm.

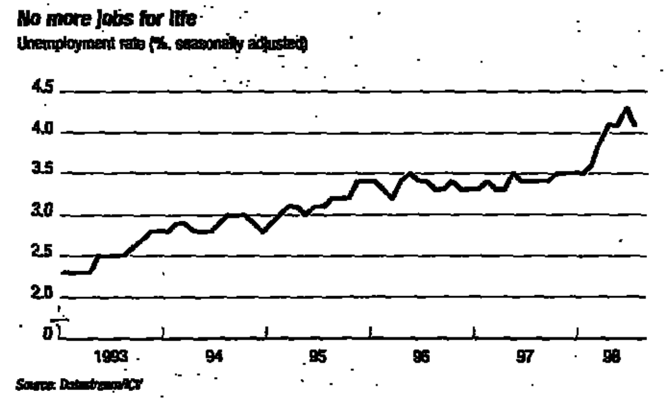
"Suffering is good for the national soul," says Fusao Koike, a struggling middle-aged real estate company employee in troubled Wakayama, who has responded to the squeeze by searching for spiritual values – and blames the current woes on Japan's headlong dash for growth in the 1970s and 1980s. "Even if salaries are lower, it is a good thing for Japan."

Will this change? Mr Yamamoto, another resident of Wakayama, thinks it might. "If the number of available jobs falls to half its current levels and we see more bankruptcies and layoffs, the sense of crisis will grow," he says. "Three months more, and this city will have come to the end of its rope."

But in Yokohama Mrs Shoji, for her part, appears unlikely to take up political arms. She is furious that the prime minister is thinking of saving the troubled Long Term Credit Bank. And she despairs of the current crop of politicians. But will she protest? "I would just rather not think about the uneasiness of my own future," she says – and then prepares to continue with her job search.

Additional reporting by Mitsuko Matsutani and Nobuko Juji

No more jobs for life
Unemployment rate (%, seasonally adjusted)



Source: Datastream/ICV

OBSERVER

Strategic thinking

As if the Philippines needs any more bad news – it reported negative growth for the first time in six years on Friday – mischievous rumours have been circulating in Manila that a group of unhappy army generals are plotting a coup against the embattled President Joseph Estrada.

Estrada, a former B movie star, has hardly hit the ground running and has stumbled from one controversy into another. He has also left the brass hats on the sidelines, unlike the late dictator Ferdinand Marcos, who was great friends with the generals, and the previous government of former army general Fidel Ramos was stuffed to the epaulettes with retired military types.

The uniforms weren't impressed when both Estrada and defence secretary Orly Mercado admitted they had no idea Philippine naval forces were holding joint war games with the Americans recently. Mercado sheepishly said he was new in the job and still getting through unfinished paperwork.

Apart from the bumbling new administration's civilian bent there could be another reason for military misery. Mercado has been asking questions about the administration of army pensions.

Accused of having its hand in the till, the military has been less than co-operative. And what better way to throw the enemy off the scent than to make sure that rumours of a coup are circulating?

Tail-end Toro

So it will soon be a big goodbye to Panama's president Ernesto "Toro" Pérez Balladares, whose re-election bid came off the rails in a referendum on Sunday. As he enjoys his last 12 months in office, there will be a growing queue to take his place.

Top dog in the opposition ranks is Mireya Moscoso, who enjoyed goading "Toro" at the referendum victory party by brandishing bullfighting paraphernalia in her Arnulfista party colours.

But Moscoso knows how difficult it is to stay in power – she learned that as the young wife of the late Arnulfo Arias, the wily nationalist leader who was a thorn in the side of Panama's ruling elite for 50 years.

Arnulfo won three elections, but each time he was ousted before he had time to redecorate the presidential palace. The last time was in 1968 – after only 11 days – and he and Mireya had to flee the couple of miles into what was then the US-occupied canal zone. One Moscoso acquaintance remembers driving back and forward through the night with carloads of clothes so that she wouldn't go ragged in exile.

In all, Arias served only two and a half years of the 14 he should have been in power, and was cheated out of another two wins by electoral fraud. Mireya is hoping for better luck next time.

Autumn leaves

The next big set-piece summit on the European Union's future could turn out to be more October farce than Oktoberfest. Germany's general election could leave Europe's political muscleman hamstrung at just the wrong moment.

The Austrian EU presidency has great hopes for its home-soil summit. Institutional reform is high on the agenda as Europe's bigwigs try to counter the tide of scepticism rising everywhere from Malaga to Manchester.

All well and good if Chancellor Kohl pulls off an unexpected win in September's poll; but things could get messy if Gerhard Schröder unseats his adversary. It could take weeks for the up-and-coming Social Democrat to piece together a coalition to put before the Bundestag. This would leave Kohl as chancellor for his EU swan song.

Postponement of the summit is out of the question: that could be interpreted as a signal that the Austrians expect Kohl to lose.

The EU get-together is not the only international gathering that could be affected: there's an International Monetary Fund bash early in October, by which time it might not be entirely clear just who'll be calling the shots at the German finance ministry.

The European Socialist party leaders' forum, scheduled for early October, might include representatives of centre-left governments in France, Germany and the UK for the first time since World War II. That might provide smoke-filled rooms where Schröder, Jospin *et al* could hammer out a common EU position away from the limelight.

Get the drift?

A hot air balloonist realises he is lost. He spots a man down below, reduces height and shouts: "Excuse me, can you tell me where I am?"

The man below says: "Yes, you're in a basket under a hot air balloon, hovering 30 feet above this field."

"You must work in information technology," says the balloonist.

"I do," replies the man. "How did you know?"

"Well," says the balloonist, "everything you have told me is technically correct, but it's no use to anyone."

The man below says, "You must be a corporate manager."

"I am," replies the balloonist, "but how did you know?"

"Well", says the man, "you don't know where you are, or where you're going, but you expect me to help. You're in the same position you were before we met, but now it's my fault."

The Financial Times

100 years ago

An Eldorado in Canada
It seems that Klondyke, whatever it may prove to the gold prospector, is turning out a veritable Eldorado to the Canadian Government. According to a letter from Dawson City in the "Roseland Times", the Dominion Treasury is said to have received during the past 12 months from Yukon miners in royalties and other dues more than $2,500,000, the amount being received from royalties alone being estimated at $800,000. The cost of the mounted police in Dawson City and the salaries of the district officials, have been reported as $40,000, so that there is a net profit of over $2,000,000 to the credit of the Treasury.

50 years ago

Berlin Blockade Discussed
Washington, August 31. The State Department said to-day that measures to lift the Berlin blockade would be discussed by the Military Governors in Berlin together with the currency problem. Mr. Michael McDermott, Press Officer, said that the military governors of the American, British, French and Russian zones would discuss "certain technical questions involved in the restoration of communications".

FINANCIAL TIMES

TUESDAY SEPTEMBER 1 1998

THE LEX COLUMN

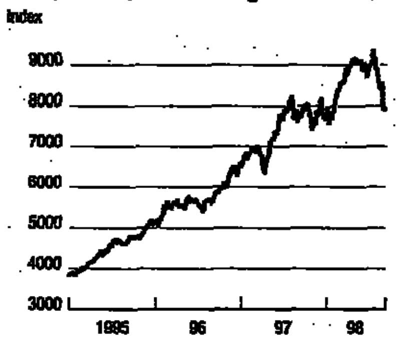
Dow and out

The summer correction is beginning to feel like a rout. The Dow Jones Industrial Average fell well below 8,000 yesterday, giving up its entire gains of the year, as has the Nasdaq. Tokyo's Nikkei temporarily slipped below 14,000 last week and Germany's Dax slid back beneath 5,000 on Friday.

The proximate cause is a continuing stream of gloomy tidings. On the eve of President Clinton's visit to Moscow, the Russian Duma has rejected the appointment of Victor Chernomyrdin as prime minister. The news from Hong Kong is even worse. Not only did the stock market fall 7 per cent as soon as the government cut back on direct intervention. The authorities lost even more of their free market credentials by deciding to tinker with the futures trading rules. In Japan, the possible bail-out of Sakura bank was offset by more awful economic figures. And political risk has been ratcheted up another notch by North Korea test-firing a missile.

With stocks still unappealing on fundamentals, markets have little to fall back on except liquidity – long a source of support. But this seems to be drying up more rapidly than expected. Some institutions are clearly being forced to sell holdings at home to cover emerging market losses. But small investors may also be changing behaviour: the US personal savings rate shot up in July, while consumer spending showed the first monthly drop in two years. If this faithful army stops buying on the dips and starts selling on the rallies, shares may have a way further to drop.

Dow Jones Industrial Average



Source: Datastream/ICV

Currencies

What is up with the currency markets? For so long a byword for irrationality and excess, they have been remarkably calm during the current turmoil. This is not, of course, true of emerging markets or commodity currencies like Canada (see below). But the pillars of the system – dollar, yen and D-Mark – have been relatively steady.

This may seem surprising. After all, Germany's near-neighbour Russia is collapsing while Japan is in crisis. Surely the dollar should be stronger? There are three reasons why it is not.

First, as the dollar is the main reserve currency, many countries are supporting their own pressured currencies by selling the greenback. Second, many speculative trades across the globe were financed with cheap, borrowed yen. As asset prices have plunged, such traders are required to meet margin calls, forcing them to buy yen.

Arguably bigger than both factors is the turn in Japanese capital flows. Japanese institutions are repatriating money to bolster their balance sheets. And even if Japanese markets look desperate, the incentive to invest abroad is hardly appetising at present.

Yen bears continue to believe economic malaise is a recipe for one-way weakness. But the dollar has its weaknesses too – such as proximity to Latin America, possibly the next emerging market conflagration. Meanwhile, with Europe about to embark upon monetary union, the D-Mark is not the bastion it once was. The upshot of all this may be a continuance of the current stalemate, and possible further support for sterling and the Swiss franc – recent beneficiaries of the safe-haven tag.

Canada

Canadians usually resent their country being described as a quiet backyard. Right now they might welcome a little peace. Dragged into the slipstream of world turmoil, the Canadian dollar has fallen to a record low of 63 US cents despite a hike in interest rates. The Toronto stock exchange is below where it started not just this year – but 1997 too.

Canada is no emerging market. It is running a federal budget surplus, inflation is minimal and the economy should grow 2 per cent in 1999. Yet right now investors are obsessed with commodity prices. With commodities making up 15-20 per cent of GDP, this year's sharp price falls are hurting: the current account deficit has widened to an unhealthy 4 per cent of GDP, hitting the currency. However, import growth is already declining as the economy slows. By next year, the current account deficit should be back to 2 per cent – which should easily be plugged by foreign direct investment.

Unfortunately, the country has yet to tackle more fundamental problems. Productivity is lower than in the US, due to higher taxes and a less flexible labour market. And a court ruling last week has put Quebec secession back on the agenda. This has been compounded by a clumsy central bank, which has lost credibility by first setting its face against rate hikes and then caving in. For investors, the combination remains unappealing.

BP Amoco

That BP Amoco has turned more cautious on emerging markets hardly seems surprising. But hang on. One of the main arguments for the merger was that as a larger company, with a stronger capital base, BP Amoco could afford to take on bigger, riskier projects. And right now looks like a perfect time for bargain hunting. Long-term thinkers like GE Capital have been snapping up cheap Asian assets.

Admittedly, much depends on the type of investment being talked about. Where BP Amoco is planning to expand capacity, such as a new chemical plant, it may indeed make sense to wait until local demand revives. But Sir John Browne, the group's chief executive, is also hinting that much past western investment in apparently high-growth emerging markets has been rather indiscriminate and now looks less than clever. BP, until recently criticised for its lack of exposure to those regions, is less guilty than most. But Sir John is signalling to local governments from Russia to China and Latin America, that they will need to become a good deal more open and welcoming if they want to start attracting western cash again.

Japan's long-term market interest rates hit new low

Data suggest stimulus packages failing to invigorate economy

By Gillian Tett in Tokyo

Japan's long-term market interest rates plunged to a new low yesterday as economic data suggested that the government's "stimulus packages" were failing to invigorate the world's second largest economy.

Construction orders fell 14.3 per cent in July compared with the same period a year ago, the seventh consecutive monthly fall, fuelling concerns that local governments are failing to implement Tokyo's plans to raise public spending. Retail sales in July were 3.7 per cent below the level of a year ago, while industrial production was down 9.3 per cent in the same period.

The yield on the benchmark 10-year government bond closed at 1.045 per cent in Tokyo markets, 25 basis points down on the day, the lowest in the world.

Analysts in Tokyo said the plunge partly reflected a global rally in bond markets. However, the Japanese government bond swing was also fuelled by concern that the country's economy is falling deeper into recession, despite a series of large stimulus packages.

Housing starts were 11.3 per cent down on the year – the 19th consecutive monthly fall and the longest unbroken period of falls since records started in 1950.

The decline in construction spending is particularly striking as the government pledged in April it would boost the economy with Y8,000bn ($57bn) additional public spending, most of which was expected to be focused on construction projects starting this summer.

Some economists suspect that the decline reflects timing and that orders will rise in the autumn. Tetsuro Sugiura, economist at Fuji Bank, said: "I think the projects will start later in the year, and so the economy will stop declining."

However, there is growing alarm in Tokyo that some local governments are refusing to implement the central government's spending plans – implying that there will be little boost from the previously announced stimulus packages.

Local governments, expected to account for about 75 per cent of the stimulus spending, are heavily indebted and so increasingly reluctant to put in place new projects.

Brian Rose, economist at Warburg Dillon Read, said: "The money being spent isn't living up to the budget because the local governments are bust. The economic situation now is beyond gloom – it is going downhill very fast."

Tracking the levels of public expenditure accurately is difficult in Japan because spending is split between local and national budgets and different public institutions, and statistics are only released after a time lag.

However, the data on contracted public work orders shows that the cumulative total for spending between April and July fell 7 per cent in prefectural areas and 5 per cent in municipal areas, measured year on year. Although the national total rose 1.2 per cent, this left the overall total lower than the previous year.

Japan's silent losers, Page 17

Toshiba and Carrier in global air-conditioning sector alliance

By Alexandra Harney in Tokyo and Nikki Tait in Chicago

Carrier of the US, the world's largest maker of air-conditioners, and Toshiba of Japan have formed a series of joint production and marketing ventures in Europe and Asia, to consolidate their positions in the air-conditioning sector.

The deal continues a trend among some large US companies to seize the opportunity provided by the troubled economic conditions in Japan and south-east Asia to improve their penetration of these markets.

Carrier, part of United Technologies, the diversified US manufacturing group, said it viewed the deal as "very significant in the long-term". "UT is in Asia for the long-run," it said. Carrier has about eight other joint ventures in Asia.

For Toshiba, the move is the latest attempt to improve profitability in an ailing household electronics division. Last month, Toshiba agreed a deal with Sichuan Changhong Electronics, the leading Chinese electronics group, to share technology and manufacture energy-efficient home air-conditioners.

Taizo Nishimuro, Toshiba president, said: "The tie-up with Carrier we are announcing today is the first big step in realising Toshiba's reformation by forming a global alliance with one of the world's first-rate companies. With this agreement, we hope to achieve a fundamental revision of our household electronics division and develop our air-conditioning business globally."

Toshiba's air-conditioning division has not made a profit for two years and reported sales of about $1.1bn last year, compared with about $6.1bn at Carrier.

Toshiba will take a 60 per cent stake and Carrier a 40 per cent stake in a new Japanese joint venture, to be called Toshiba Carrier. This will be made up of Toshiba's Japanese air-conditioning business and Carrier's existing Japanese subsidiary, Toyo Carrier, and will have assets worth approximately Y72.4bn ($517m). The company will begin operations in April 1999. The two groups are still in talks about the amount of investment from each side, as well as the selection of a president for the new company.

The deal also establishes joint ventures in the UK, Thailand and Malaysia for manufacturing and marketing operations.

In addition, the arrangements will consolidate the groups' heating, ventilation, and air-conditioning operations in Singapore, Hong Kong, France and Germany.

Toshiba said it would transfer 2,200 employees from its air-conditioning division, which employs 2,700 workers, to the new company.

Toshiba said the two companies aimed for a 30 per cent share of global air-conditioner sales after 2000.

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Australian Labor party leader Kim Beazley before a radio broadcast yesterday on the first day of the country's election campaign. Page 4

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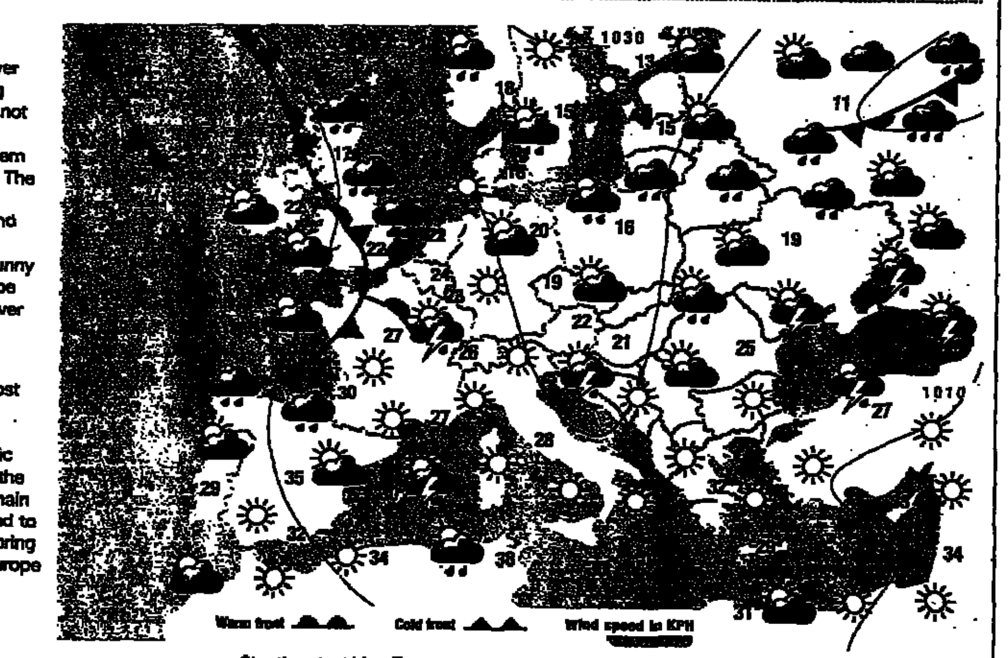
FT WEATHER GUIDE

Europe today

Pressure will remain strong over northern Scandinavia, bringing mostly sunny skies, but it will not be particularly warm. Isolated showers are possible in southern parts of Norway and Sweden. The Baltic states and the bulk of northern Europe will be fine and dry. France and the Iberian peninsula will be warm with sunny intervals, although there may be showers and thunderstorms over central France late in the day.

Five-day forecast

High pressure will remain almost stationary over northern Scandinavia. It will turn increasingly cold over the Baltic states and western Russia by the end of the week, but it will remain fine. A small disturbance related to former hurricane Bonnie may bring some heavy rain to western Europe from Wednesday onwards.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	44
Accra	Fair	27
Algiers	Fair	34
Amsterdam	Shower	32
Athens	Sun	32
Atlanta	Thunder	34
B. Aires	Fair	17
B.ham	Shower	21
Bangkok	Thunder	35
Barcelona	Fair	30
Beijing	Fair	27
Belfast	Shower	20
Belgrade	Fair	33
Berlin	Fair	20
Bermuda	Shower	31
Bogota	Cloudy	19
Bombay	Thunder	32
Brussels	Fair	24
Budapest	Fair	21
C.hagen	Fair	18
Cairo	Sun	35
Caracas	Fair	32
Cardiff	Shower	21
Casablanca	Fair	26
Chicago	Thunder	30
Cologne	Fair	24
Dakar	Fair	31
Dallas	Sun	36
Delhi	Fair	31
Dubai	Sun	42
Dublin	Shower	22
Dubrovnik	Sun	25
Edinburgh	Rain	17
Faro	Sun	26
Frankfurt	Fair	22
Geneva	Sun	26
Gibraltar	Fair	29
Glasgow	Rain	17
Hamburg	Fair	20
Helsinki	Cloudy	13
Hong Kong	Thunder	31
Honolulu	Fair	32
Istanbul	Sun	27
Jakarta	Cloudy	33
Jersey	Fair	22
Johannesburg	Fair	19
Karachi	Fair	36
Kuwait	Sun	46
L. Angeles	Sun	29
Las Palmas	Sun	28
Lima	Cloudy	19
Lisbon	Fair	29
London	Shower	22
Luxbourg	Shower	23
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Strasbourg	Thunder	25
Sydney	Fair	19
Tangier	Fair	29
Tel Aviv	Sun	34
Tokyo	Shower	29
Toronto	Fair	24
Vancouver	Shower	24
Venice	Fair	26
Vienna	Fair	22
Warsaw	Shower	18
Washington	Thunder	29
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Winnipeg	Sun	20
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FINANCIAL TIMES
COMPANIES & MARKETS
TUESDAY SEPTEMBER 1 1998
Week 36

Daimler-Benz in components shake-up

Surprise creation of powertrain business is step in improving transparency

By Haig Simonian in Hanover

Daimler-Benz, the world's biggest commercial vehicles maker, will today announce the first step in what could be a radical restructuring of its components activities to raise productivity and boost profits.

At the Hanover truck show, the German company will reveal the creation of a new powertrain business combining its engine, gearbox, axle and steering manufacturing activities for commercial vehicles.

The move is believed to have been planned for some time, but to have been postponed to let Daimler-Benz executives concentrate on their takeover of Chrysler of the US.

Postponement also avoided any risk of unrest among the group's German workers before decisive meetings of Daimler-Benz and Chrysler shareholders to approve the deal on September 18.

Daimler-Benz's surprise decision marks a further important step in improving transparency in its manufacturing operation. It also opens the door to the possible sale or flotation of the powertrain unit.

General Motors and Ford have already restructured their components activities into separate subsidiaries as a precursor to flotation. GM plans to float 15-20 per cent of its Delphi parts division early next year. Ford has not revealed its plans but is believed to have similar ambitions for Visteon, its components subsidiary.

Daimler-Benz's decision is far less radical than that of either US manufacturer as it only involves parts for commercial vehicles, not cars. Nor is the German group believed to have any plans to float or sell its powertrain operations in the near future.

Nevertheless, the step will be seen as a further example of the greater transparency being demanded across Daimler-Benz's operations by Jürgen Schrempp, chairman.

Creating a new unit will raise the profile of Daimler-Benz's powertrain activities and serve two purposes. It should prompt greater use of internally-made components on new vehicles. Although Daimler-Benz is widely believed to be one of the world's most vertically integrated van and truck manufacturers, many of its vehicles use large amounts of components bought in.

The re-organisation will also maintain pressure on the group's German employees to continue improving productivity. The new powertrain unit predominantly comprises factories in high cost Germany. Although Daimler-Benz expects to build about 480,000 vans and trucks this year, profits in commercial vehicles have traditionally been depressed by chronic losses in its German manufacturing operations.

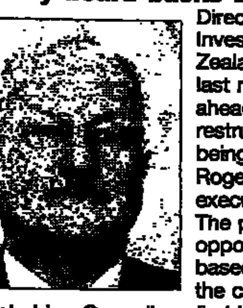
Although Daimler-Benz has achieved considerable savings with the Actros and Atego, its new German-built heavy and medium trucks, executives are keen to ensure workers remain aware of the need to continue improving productivityto remain competitive.

INSIDE

Western institutions express interest in Romanian banks

Romania's effort to privatise two state-owned banks has drawn 10 expressions of interest from international financial institutions, including Société Générale of France, Dutch bank ABN Amro, and GE Capital of the US. However, bankers in Bucharest said the government's price expectations for the banks remained unrealistically high. Page 22

Brierley board backs Douglas plan



Directors of Brierley Investments, the New Zealand group, decided last night to forge ahead with sweeping restructuring plans being promoted by Sir Roger Douglas (left), executive chairman. The plans had been opposed by Malaysian-based Camerlin Group, the company's biggest shareholder. Camerlin called last week for a shareholders' meeting to dismiss Sir Roger after Brierley failed to sell its 46 per cent stake in Thistle Hotels of the UK. Page 22

Dollar a casualty of market turmoil

At a time of global economic panic, investors are selling the currency usually considered the world's safest. The dollar has fallen against the D-Mark and yen even though the US economy is growing strongly. Page 29

French nuclear group branches out

French group Framatome's announcement last week that it was poised to acquire US-based Berg Electronics raises the possibility that it could soon derive more turnover from connectors than from its nuclear business. Page 20

TNT Post beats interim forecasts

TNT Post Group, the Dutch mail and courier company, exceeded forecasts with an 18 per cent rise in interim earnings to Fl 365m ($182m). The company predicted the same rate of growth in the current half. Page 22

Swap spreads show flight to quality

One barometer of the flight to quality over the past fortnight has been the movement in swap spreads in currency markets. Led by the US dollar and sterling, spreads in the swap market between fixed-rate and floating-rate paper have widened to eight-year highs. Page 28

IPMA hits at withholding tax plan

A European Union proposal to impose withholding tax on interest income will cause disruption to capital markets and drive business outside the EU, according to the International Primary Market Association, which represents underwriters of debt and equity securities. Page 28

Stock buy-back plan lifts Viacom

Viacom shares rose yesterday after the US entertainment group announced plans to buy back up to $1.75bn of its own stock, which has fallen 20 per cent in the past month. Page 22

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S Korea expected to confirm collapse of Kia auction

By John Burton in Seoul

The auction of the bankrupt Kia motor group, South Korea's third largest carmaker, appeared yesterday to have collapsed amid allegations of favouritism. A formal announcement to cancel the auction is expected today.

All four bidders – Ford Motor of the US and Korean carmakers Hyundai, Daewoo and Samsung – demanded a greater write-off of Kia's estimated debt of Won13,000 ($9.7bn), which creditor banks rejected.

Ford and Hyundai were also disqualified because they failed to bid the minimum "reserve" price of Won1,100bn for Kia and its truck division, Asia Motors, which posted a total net loss of more than Won6,000bn in the first half. Samsung made the highest bid, followed by Daewoo.

The auction ended in controversy as creditor banks asked Samsung and Daewoo to resubmit bids withdrawing their demand for debt write-offs, but they refused. Ford and Hyundai accused the creditor banks of unfairly intervening in the auction when they asked Samsung and Daewoo for new bids.

The aborted auction is likely to delay restructuring in Korea's bloated car industry and undermine foreign confidence in Korea.

Ford was considered the strongest candidate for taking over Kia because of its financial strength, management expertise and technical capability.

The sale of Kia was considered an important test of Korea's commitment to attracting foreign investment. A takeover by Ford, already Kia's largest shareholder with a 16.9 per cent stake, would have represented a significant opening of Korea's protected car market and proof that Seoul intended to promote market competition.

"Korea is going to be criticised for keeping its market closed and the outcome of the auction will disappoint those who expected reforms. The vested interests have won," said Henry Morris of the Seoul-based consultancy IRC.

The future of Kia remains uncertain. Yoo Chong-yul, the court-appointed administrator of Kia, said another auction could be held within a month, but doubts over its fairness and transparency are likely to linger.

The government might instead include Kia in asset swaps among the leading conglomerates, or *chaebol*, which it is promoting in an effort to rationalise industry.

One proposal is that Hyundai and Daewoo, the two largest carmakers, should absorb Kia along with Samsung Motors, the newest and smallest carmaker. However, Samsung is keen to take over Kia and merge it with Samsung Motors to stay in the car business.

The three domestic carmakers competed for Kia in an effort to keep Ford out of the country, the world's fifth largest car producer and the biggest car market in Asia after Japan. But the Korean producers have weak finances, with high debt burdens, poor cash-flow and bad credit ratings. It is uncertain how any of them could finance a Kia takeover.

There are also doubts whether Korea can support three carmakers when factory production has fallen to 40 per cent and a full recovery in domestic car sales is not expected for five years.

Sir John Browne: 'I don't want to do anything that hurts BP Amoco.'

Relaxed BP chief gets to grips with details of Amoco deal

More than a few questions remain over implementation of the world's biggest industrial merger. Robert Corzine talks to Sir John Browne

Even workaholics need a break. Last week Sir John Browne, the chief architect of the world's biggest industrial merger between British Petroleum and Amoco of the US, escaped to an admittedly "pricey" resort on the Adriatic Sea for a break from the relentless schedule he has maintained since the announcement of the deal three weeks ago.

Sitting barefoot by the hotel pool and dressed in shorts and T-shirt, Sir John admitted that the past few weeks had been "exhausting".

Like other senior BP executives, he has been serving as a transatlantic "Inca runner", taking directly to big shareholders the message of why BP's effective takeover of Amoco is best for the future of both companies.

Given that most analysts remain relatively positive about the deal after having pored over the details of the strategic fit between the two companies, attention is now shifting to how Sir John and his key lieutenants, such as Rodney Chase, BP's deputy chief executive, will implement the merger at a time of great uncertainty in world stock markets.

Perhaps it was the halcyon setting, but late last week Sir John appeared wholly relaxed about the impact of volatile stock markets (and share prices) on the deal: "Everything simply moves in proportion," he said.

But more than a few questions remain over the deal's implementation. One concerns wide differentials between high US salaries paid to senior Amoco executives and their more modestly paid UK counterparts. Sir John describes such concerns as "a storm without a wind".

He says the pay issue is one that the compensation committee "will have to think through very hard", and he is reluctant to prescribe a preferred course of action. Although there may be some adjustment on the UK side, Sir John says it is likely that salaries will be paid in accordance with the country in which an individual executive will receive his or her pension. The main criterion will then be whether an individual's pay is in line with national norms.

But will his own compensation package rise to US levels? Sir John said simply: "I don't want to do anything that hurts BP Amoco."

He also appears prepared for criticism about potential job cuts, especially in the US, where most are likely to occur. The decision to close BP's American headquarters in Cleveland, Ohio, and move the combined US corporate centre to Amoco's Chicago base has already provoked sharp criticism from Ohio's governor.

Sir John is also aware of the danger during integration of BP's role as the dominant party in the deal.

"We musn't create an atmosphere of intimidation," he says. "Amoco is better at logistics and it is better at capital efficiency, while BP has better operating costs."

He has so far made only two promises to shareholders: he will close the deal and deliver $2bn in initial cost savings. The first looks easily attainable, although the number of recent mega-mergers in the US is stretching the Securities and Exchange Commission.

Most analysts say the second promise also looks attainable. Many say they would not be surprised if Sir John announced new targets in the first year of the merger.

Although the detailed planning for integration is only now taking place, Sir John has firm views on several issues. There will not be a widespread "corporate makeover" to create a new identity. Nor will there be a bonanza for management consultants keen to advise on integration. Only one outside consultancy will be used, he says.

Sir John is adamant that BP Amoco "will remain very much open for business" during its integration phase.

"When the time is ripe, I'll be talking to the chief executives of our big partners to tell them about BP Amoco." He says they should not fear the new group, as its preoccupation will be "to make the pie bigger" for all.

But does Sir John think others will follow his lead to greater consolidation? "I don't know if others will follow suit," he says. "It is unknowable." But it is clear that his relaxed attitude about the future comes not so much from his luxurious, sunny surroundings as from the knowledge that no one else can be first off the mark.

Texaco and Shell may broaden link

Texaco's shares rose in New York after Royal Dutch/Shell said it was talking to the US oil group about potential co-operation.

Shell and Texaco, which have refining and marketing joint ventures in the US, are said to have been discussing the possibility of similar arrangements in Europe. Even though the Anglo-Dutch group confirmed it was in talks with "various parties, of which Texaco is one", Texaco described rumours as "wild speculation".

The US company's shares were up $1\frac{1}{16}$ at $58\frac{3}{16}$, while the American Depositary Receipts of Shell Transport & Trading were up ¾ at $32\frac{5}{8}$.

Since the BP Amoco deal, there has been a stream of speculation that other big oil companies might feel obliged to consider full mergers rather than more limited forms of co-operation.

FTSE indices in changes to reflect global economy

By Philip Coggan, Markets Editor

Substantial changes are being made to the FTSE family of stock market indices to create a consistent system for industrial sectors covering markets around the world.

The indices concerned include the FT/S&P World index, a benchmark for global investment management performance, the FTSE European series and the FTSE indices in the UK.

The changes, which will be introduced in January for UK and European indices and in the second quarter of 1999 for the world, are designed to reflect the changing make-up of the global economy. They include the creation of an information technology economic group.

Thomas Tilse of Commerzbank, chairman of the new classification committee, said: "There is a growing belief among international fund managers that, post-EMU, sector allocation will become more important than country allocation in achieving excess returns.

"The new classification system will allow investors and market participants greater flexibility in analysing industrial sectors on a global and pan-European basis."

The FTSE share indices are sub-divided into economic groups (such as basic industries or resources), sectors (such as chemicals or extractive industries) and sub-sectors (such as commodity chemicals or gold mining).

The information technology economic group will be divided into two sectors; computer hardware, and software and services.

Another change will see some economic groups divided into two. The general industrials group will be split into basic and general industries; and consumer goods and services will be split into cyclical and non-cyclical elements. As an example, beverages will be classed as a non-cyclical consumer sector, while automobiles will be cyclical.

A complete list of the new economic groups is: resources , basic industries , general industries , cyclical consumer goods , non-cyclical consumer goods , cyclical services , non-cyclical services , utilities , financials ,and information technology

There will also be some alterations at the sector level. The construction and building materials sectors will be lumped together as one, as will the insurance and life assurance sectors.

The need to create classifications that apply across the global markets will mean the existence of some sectors that will have no constituents in some countries.

FTSE International, which manages the indices, said the changes followed consultation with investors worldwide and involved assistance from analysts at Goldman Sachs, the US investment bank. Goldman is a co-owner of the world indices.

FTSE International is jointly owned by the Financial Times and the London Stock Exchange.

JAPAN MITSUI CORPORATE FAMILY ASKED FOR CAPITAL INJECTION AFTER FALLS IN SHARE PRICE

Sakura Bank seeks Y300bn from partners

By Gillian Tett in Tokyo

Sakura Bank, one of Japan's largest, said yesterday it would ask its business partners in the Mitsui *keiretsu*, or corporate family, for a Y300bn ($2.1bn) capital injection to boost its financial strength.

The request follows a sharp fall in the bank's share price and credit ratings in recent months. Key Mitsui companies include Toyota, the carmaker, and Mitsui, the trading group.

Yoshinobu Yamada, banking analyst at Merrill Lynch, said: "I think that a lot of banks will be thinking of doing the same thing, but Sakura is lucky to have the strong Mitsui *keiretsu*. The critical question now is whether this will be enough to let Sakura get back the confidence of the markets."

The market pressure on Sakura has grown in recent weeks amid investor unease about Japan's banking sector. Its share price tumbled to a low of Y220 last Friday, from a peak of Y562 earlier this year. However, yesterday's announcement lifted Sakura's share price to Y248.

Meanwhile, the sharp fall in the Nikkei has threatened to undermine Sakura's financial strength by reducing the value of its equity portfolio.

Moody's, the US credit rating agency, has downgraded Sakura's debt from A3 to Baa1, two notches away from speculative grade.

Akishige Okura, Sakura president, said the capital injection was designed to increase the bank's financial strength ahead of Big Bang deregulation: "We are considering a capital increase in order to restore our credit rating to at least a single A."

Analysts welcomed Sakura's request as a sign that the Mitsui *keiretsu* was still relatively cohesive. They also pointed out that the capital injection showed Sakura was being forced to tackle its woes, rather than waiting for public funds.

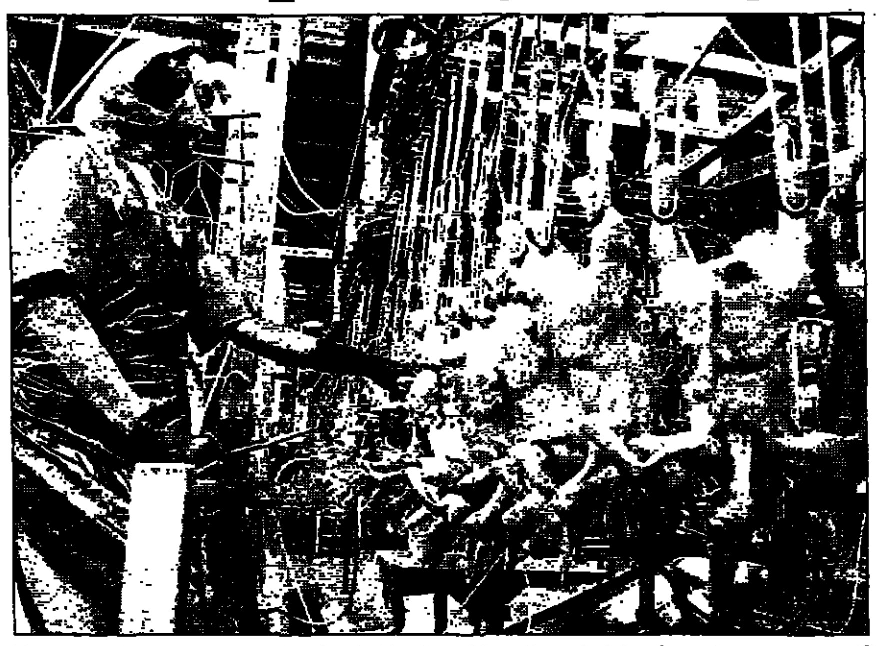
"This should allow Sakura to deal with its bad loans," said Mr Yamada, who estimates the bank now has about Y600bn of bad loans. Although the Y300bn capital injection will not cover all of these, Sakura expects to post parent operating profits of Y280bn this year.

Analysts stressed the bank must also take radical restructuring measures. James McGinnis, analyst at Dresdner Kleinwort Benson, said: "They have to withdraw from overseas, rationalise their domestic operations and securitise part of their loan book if they want to become viable."

Mr Okada said yesterday Sakura would shrink its operations drastically in the US and Europe in the coming years. The bank has been selling off property-related bad loans, with some Y400bn-worth sold to date.

Tyson to take poultry charge

By Nikki Tait in Chicago



Tyson operations: restructure of poultry division forced by collapse in Asian demand AP

Tyson, the US food company that is the world's biggest producer of chicken and poultry-based products, is to take a $43m charge in the fourth quarter of its 1997-98 financial year to cover the restructuring of its poultry operations, hit by the collapse in Asian demand.

It also said it would take a further $53m charge, including $30m to cover risks related to its export business to Asia and Russia.

The company announced broad plans for restructuring the operations in late July, and has already closed two poultry processing plants.

However, yesterday Tyson gave further details, saying other assets due for disposal or closure included feedmills, an office facility and some farms. It is also planning to divest or redeploy its seafood assets, which include fishing vessels.

The three-year benefit to cash-flow, including asset sale proceeds, is put at $130m, with the savings from the restructuring expected to boost profits after tax by $12m to $15m annually.

Tyson added that as part of the restructuring programme, it intended to invest about $21m to upgrade and enlarge some of its facilities.

The company's problems relating to the slump in Asian demand surfaced last year, but it has also been viewed as a casualty of the recent Russian crisis.

A week ago, its Moscow office described the Russian export market as "very important" for the company.

Framatome might shift to connectors

By David Owen in Paris

Framconnect? A name change is probably not on the horizon. But Framatome's announcement last week that it is poised to acquire US-based Berg Electronics raises the possibility that the French company could soon derive more turnover from connectors than from its traditional nuclear business.

For a company created 40 years ago as Franco-Américaine de Constructions Atomiques to develop French expertise in nuclear reactors, this is a landmark. It says much about the problems that have dogged nuclear plant constructors since the Three Mile Island and Chernobyl accidents.

Simply stated, once the group completes its work at the Civaux site near Poitiers in west central France, probably next year, it is unlikely to secure more orders for reactors in its domestic market until the early years of the next century.

This is a sea-change for the company that built all 58 reactors in France's extensive nuclear network. It has also exported 11 reactors. But the only foreign power station it is currently constructing is a two-reactor plant at Ling Ao, southern China.

An increased emphasis on nuclear services has helped keep nuclear-related turnover reasonably high – last year at FFr10.8bn ($1.8bn) out of overall sales of FFr18.4bn. Framatome's connectors business generated turnover of FFr6.1bn, while Berg's turnover was $785m. Taken together, their sales would be close to those of the nuclear division.

Berg and Framatome Connectors International have entered an agreement under which the French group would acquire all outstanding Berg shares at $35 a share in cash. This represents an aggregate transaction value of $1.85bn, including the assumption of outstanding debt.

Dominique Vignon, chairman, said the group would take on about FFr6bn of debt to help finance the deal. "Currently, interest rates are very low and it is worthwhile to borrow," he said.

The company said the merger of numbers three and four in the $30bn world connectors industry would produce an entity close in size to Molex, the number two. AMP, the market leader, is currently subject to a $9.8bn hostile bid from AlliedSignal, the diversified manufacturer.

Framatome, which entered the connectors business in 1989, said Berg was a good fit in both product and geographical terms. It said the US group was number two worldwide for both telecoms/data and printed circuit connectors. Combining the businesses promises to lift the proportion of Framatome Connectors International turnover derived in the US from 35 to 41 per cent and in Asia from 12 to 17 per cent.

The company, which last year tried to buy the nuclear division of Westinghouse of the US, is majority owned by public entities.

Chancellor Media in $930m buy

By Christopher Parkes in Los Angeles

Chancellor Media, the acquisitive radio, television and billboard group, has completed its strategic buying spree with a $930m deal to take over Whiteco, the largest privately held outdoor advertising company in the US.

After spending about $8bn on acquisitions in the past few months, Chancellor, founded and controlled by Hicks, Muse, Tate & Furst, said future purchases would be made to fill any gaps in its operations.

By integrating radio, TV and billboard services, Chancellor has set out to provide advertisers with one-stop shopping services that will allow them to bombard regional and local markets with targeted campaigns.

Chancellor established itself as the largest US radio broadcaster, overtaking CBS, with last week's $4.1bn transaction in which it absorbed Capstar, another Hicks, Muse company.

It moved into television a few weeks earlier when it paid $1.6bn for Lin Television, following the $1.5bn purchase of Martin Media this summer, which marked its entry into outdoor advertising.

The addition of Whiteco adds 21,000 billboard and other "faces" to the 14,000 already owned, and makes Chancellor one of the top five companies in the sector on the basis of aggregate annual revenues of about $245m.

With 465 stations in 105 markets, it is already by far the biggest radio company in the US and claims an audience of more than 65m.

Although TV assets are limited to 12 stations, most are based in areas where the group already owns substantial radio or billboard interests.

"With the acquisition of the Whiteco Outdoor assets, we have completed the foundation of Chancellor's multimedia national platform," said Jeffrey Marcus, chief executive.

The deal was fairly priced, he claimed, at 12.4 times 1999's projected billboard cashflow, and would start contributing immediately to group after-tax cash-flow, adding about 10 cents a share, Mr Marcus said.

NEWS DIGEST

FRANCE

Alcatel chairman quits board of Aerospatiale

Serge Tchuruk, chairman of Alcatel, the French telecommunications group, resigned yesterday from the board of Aerospatiale, the aerospace group, over a conflict of interest emerging from recent restructuring in the country's defence and satellite industries. Alcatel said yesterday that Mr Tchuruk had left the post because a state-engineered merger between Aerospatiale and Matra, the defence arm of Lagardère, created a satellite venture in direct competition with a similar alliance between Alcatel and Thomson-CSF, the defence electronics group.

Aerospatiale, under an earlier proposed link-up with Alcatel, had signed an undertaking to limit any interests in satellites to a 25 per cent equity stake. However, the government in July announced its own plan to speed up consolidation in France's fragmented defence and aerospace sectors by merging the state-owned Aerospatiale with some of the operations of Lagardère, the quoted defence and publishing conglomerate. "It was quite obvious after this change that Mr Tchuruk could not be involved in both companies," Alcatel added.

Yesterday's announcement coincided with the rebranding of the former Alcatel Alsthom as simply Alcatel, under a restructuring started by Mr Tchuruk when he took the helm in 1995. **Mark Mulligan, Paris**

SWEDEN

Pricing, weather dull Sydkraft

Sydkraft, the Swedish nuclear and hydroelectric power company, yesterday announced flat interim profits as tough price competition and mild weather held back sales. The company, which has been ordered by the government to decommission its oldest nuclear reactor at Barsebäck in southern Sweden, reported underlying profits of SKr2.22bn ($273m) in the period to June 30, compared with Skr2.21bn last time.

The results, achieved on sales up modestly from SKr7.59bn to SKr7.65bn, were undermined by an unusually mild winter and wet summer in the Nordic region. "The electricity market is marked by continued tough competition, which has depressed prices in the end customer market," the company added.

At the pre-tax level, profits fell from SKr3.96bn to SKr1.79bn – although the 1997 interim figures include one-off gains of SKr2.3bn following the sale of shares in Veba of Germany. Earnings per share, excluding such one-off items, rose from SKr5.78 to SKr6.30.
Tim Burt, Stockholm

SWITZERLAND

Wienerberger ahead in term

Wienerberger, the world's biggest brick-maker, increased its first-half operating profit by 25 per cent, to Sch1.1bn ($754m). Erhard Schaschl, chief executive, said the increase came in spite of a "tense" situation in Germany, the group's biggest market, where brick prices fell by more than 50 per cent.

Wienerberger has cut its costs by 25 per cent in the past four years in Germany and has been picking up capacity from some of its competitors forced into bankruptcy. In the first half of 1998 Wienerberger acquired 12 brick and pipe plants, taking its network to 160 plants in 21 countries.

Mr Schaschl said the recent financial problems in Russia would not affect the group's target of increasing the profits of its core industrial activities by 20 per cent in 1998. The group's south-east Asian operations accounted for only 2 per cent of revenues. Poland and Croatia were a high priority for expansion, followed by Romania and Slovenia. Group sales rose 9 per cent, to Sch7.9bn in the latest six months. **William Hall, Zurich**

Europe looks to Germany to provide shield from emerging markets fall-out

New competitive footing of country's industrial groups will hold firm while US market remains strong, writes **Graham Bowley**

As Russia's crisis rages to Europe's east and the violent aftershocks of Asia's recent financial hurricane continue to shake the world's economies, the prospects for Europe's growth seem under threat.

But the rejuvenation of corporate Germany, as underlined by the recent crop of buoyant corporate profits, raises the hope that Europe's largest economy will be an engine of growth that brings stability during this troubled period.

German business is in better shape than it was just three or four years ago. Corporate Germany has unleashed a revolution which has transformed its competitiveness and is being rewarded now with strong profits.

The revolution was triggered by the fact that German companies faced some of the highest labour costs in the world. In response, they have cut jobs and tackled wage costs by shifting production to lower-cost locations abroad and by forcing unions at home to accept more flexible working practices.

Companies such as Daimler-Benz have sold non-core businesses which were weighing heavily on profits. Innovations at others, such as car group Volkswagen, have resulted in world-beating new products.

This improvement in competitiveness – coupled with a period when the D-Mark has been relatively weak – has resulted in an export-led boom for German industry, especially in the car sector, the country's biggest industry. BMW, Mercedes-Benz, VW and Porsche are all thriving. Lufthansa, the national airline, last week reported that first-half profits doubled thanks to cost cuts and a boom in international air passenger growth.

There are also signs that the stagnation of domestic growth has lifted: consumer demand is picking up and fixed investment is growing.

According to Hans-Günther Vieweg, economist at the Ifo Institute in Munich, this spells good news for the rest of Europe. "German industry will be an agent for growth in Europe because German companies have strong linkages to other European states," he says. "Other countries have suppliers for German industry and the big German companies have production sites in countries like Spain, France, the UK."

While these developments have put German industry on a better footing, they may not be sufficient for it to become the engine of growth that Europe needs. Although manufacturing industry has been transformed, this sector accounts for only about a third of gross domestic product.

'If Asia's troubles continue, then Germany is going to be affected. Countries that supply the world with capital goods will be in trouble'

Other big sectors such as retailing and building have undergone little structural change and continue to stagnate, as illustrated by the poor results of retailers such as Metro and building concerns such as Holzmann.

Although manufacturing companies have cut labour costs, non-wage labour expenses remain a burden to industry. They have not been tackled, mainly because of delay by politicians in implementing the radical tax and pension reforms German business has been calling for.

The impact of turbulence in Russia on Germany is, however, likely to be muted. According to Ulrich Ramm, chief economist at Commerzbank in Frankfurt, Russia accounts for only 2 per cent of German exports. On the other hand, Russia's negative effect could be greater if it destabilises the economies of eastern Europe to which Germany has greater exposure.

Asia's influence on Germany is far greater. According to Mr Ramm, Asia, including Japan, accounts for about 13 per cent of German exports. Already companies have shown some signs of distress – Siemens, the country's biggest electronics company, has issued dire warnings about its semiconductor business which is lossmaking because of undercutting by Asian exporters. Even SAP, the business software group, has warned of a slowdown in its still rapid expansion because of the damping effects on world economic growth.

According to Norbert Walter, Deutsche Bank chief economist, Germany is especially vulnerable to Asia's problems because of the nature of its industry. "If Asia's troubles continue, then Germany will be affected. Those countries that supply the world with capital goods are going to be in trouble," he said.

So far, however, the impact of Asia's crisis on world economic growth has been relatively muted. But this is not because of the resilience of Germany's economy. Rather, argues Mr Ramm, the crucial reason is the relatively strong expansion of the US economy. "We are in an upswing in Germany, but it is too weak to have an important influence on Europe overall. It is because the US has avoided the effects of Asia that they have not been felt so deeply here," he said.

Corporate Germany has restructured and is once again profitable. It is now likely to lead an economic recovery in continental Europe (the UK, in a different economic cycle, appears to be beginning a downturn). But Europe may need to look to the US as the ultimate engine of growth, and if it falters, in part under pressure from Asia and Russia, then Europe could stumble too.

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NEWS DIGEST

chairman quits ... of Aerospatiale

dull Sydkraft

in term

fall-out

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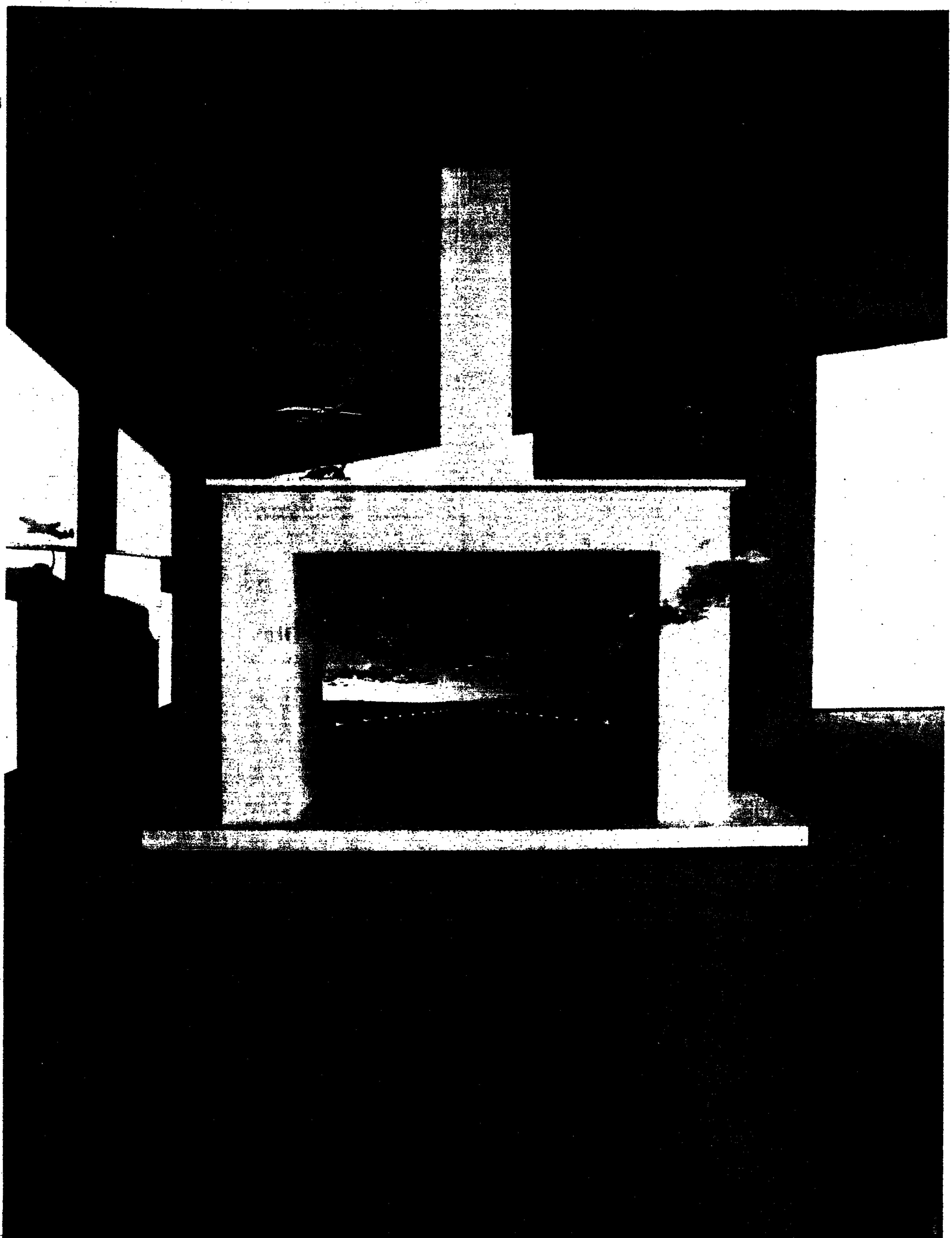

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PRIVATISATION SOCIETE GENERALE, ABN AMRO AND GE CAPITAL EXPRESS INTEREST IN SELL-OFF

Foreign bidders line up for Romanian banks

By Virginia Marsh and Stefan Wagstyl in Bucharest

Romania's effort to privatise two state-owned banks have drawn 10 expressions of interest from international financial institutions, including Société Générale of France, ABN Amro from the Netherlands, and GE Capital, the financial services arm of General Electric of the US.

Six bidders have submitted non-binding letters of intent to buy a 51 per cent stake in the Romanian Development Bank, the country's fourth biggest commercial bank, and four have lodged offers for a 35 per cent stake in Banc Post, a small bank with a large branch network linked to the post office.

However, the much-delayed auction, seen as a key element of Romania's troubled privatisation programme, could still be upset by the continuing turmoil in east European markets.

Bankers in Bucharest said the government's price expectations for both banks remained unrealistically high. Officials have suggested valuing RDB at up to $600m and Banc Post at up to $200m. Some western banks said these figures were about double the true value of two institutions.

Several of the banks which have submitted letters of intent might not bid. The deadlines for firm offers are in a month's time.

The financially strapped Romanian government is determined to secure the receipts from the sales by the year-end, for inclusion in this year's budget. The privatisations are also seen by the World Bank and the International Monetary Fund as conditions for new loans to Romania.

The difficulty of attracting investors to Romania was highlighted last week when KPN, the Dutch telecommunications utility, pulled out of the race to buy a stake in Rom Telecom, the state-owned enterprise.

If Telecom Italia, KPN's consortium partner, also withdraws, Romania will be left with only one bidder – OTE of Greece, which is expected to bid with SBC Communications of the US.

The six institutions understood to be interested in the RDB are ABN Amro, Banca Commerciale Italiana of Italy, GE Capital, France's BNP, Société Générale, and KBC from Belgium.

The four bidders for Banc Post include Bank Austria and Creditanstalt of Austria.

Romanian officials had hoped that Citibank of the US, one of the most active foreign banks in the country, would be among the bidders.

TNT Post Group tops forecast at halfway

By Gordon Cramb in Amsterdam

TNT Post Group, the Dutch mail and courier services company which gained a listing two months ago, exceeded its forecasts with an 18 per cent rise in interim earnings and predicted similar growth for the second half.

TPG – spun off from KPN, the privatised telecoms utility – recorded net profits of Fl 365m ($182m) compared with Fl 310m in the first half of 1997. It had projected a rise of 10-15 per cent.

Earnings per share were 77 cents against 65 cents. However, under US accounting practices, they were flat at 71 cents, reflecting a different treatment of reorganisation costs. The group is automating domestic postal deliveries and has rationalised its express services side since the 1996 takeover of TNT, the Australian parcels carrier.

Ad Scheepbouwer, chairman, said yesterday that TPG's new European hub in Liège, Belgium, made it "the quickest and most efficient". The group has closed a German facility in Cologne.

"In express as well as logistics we are actively looking at a number of acquisitions," he said, adding that deals could be reached this year or next year.

The logistics division, the smallest but fastest-growing, accounts for Fl 1.11bn of TPG's Fl 7.95bn revenues. It saw sales growth of 20.9 per cent compared with 8 per cent across the group as contracts were struck with large manufacturers, mainly for deliveries of components.

Recent deals include serving Fiat in Italy, Poland and Brazil, and Toyota in the US.

Although new contracts involved initial expenses, said Mr Scheepbouwer, margins had broadly been maintained. Operating income at the division was up 20 per cent at Fl 72m. The group-wide increase was 8.7 per cent to Fl 685m.

Capital spending was devoted largely to the express operations, which absorbed Fl 300m. Another Fl 105m went into mail, and the company said the year's total would be well above the 1997 level of Fl 554m. It has ordered 14 Airbus A300 freighters to replace older Boeing 727s in a year's time.

The fall in Asian currencies wiped out the effects of volume growth in the region, leaving express activities outside Europe with a 5 per cent decline in revenues to Fl 648m. In Russia, the slide in the rouble meant "business could be halved right away", Mr Scheepbouwer said. This would have no noticeable impact on the bottom line, he added.

The group announced a 30 cent interim dividend. The shares closed down Fl 1.9 at Fl 41.8 in Amsterdam.

Volkswagen, the German carmaker, yesterday rolled out the first car built at its new plant in Sarajevo, Bosnia. The scheduled production volume will initially be 5,000-10,000 Skoda Felicias a year but the plant can produce up to 35,000 units from the year 2000. Volkswagen said its target market was the former Yugoslavia and southern Europe. It will create 1,200 new jobs at the plant by 2001. The German company is seeking to expand the assembly operations of Skoda, the Czech carmaker which has been under Volkswagen's control since 1991, and is carrying out feasibility studies for projects in Russia, India and Egypt. Volkswagen's operations in Sarajevo were interrupted by the war in 1992. From 1972 to 1992 the company produced more than 400,000 vehicles through a joint venture with Tvornica Automobila Sarajevo. Reuters

Brierley agrees structure plans

By Terry Hall in Wellington

Directors of Brierley Investments decided last night to forge ahead with sweeping restructuring plans being promoted by Sir Roger Douglas, executive chairman.

The plans had been opposed by Malaysian-based Camerlin Group, the company's biggest shareholder.

Camerlin's chairman, Quek Leng Chan, called last week for a full shareholders' meeting to dismiss Sir Roger after Brierley failed to sell its 46 per cent stake in Thistle Hotels of the UK.

Camerlin, which had backed Sir Roger in the April coup that led to the departure of the former chairman, Bob Matthew, and chief executive, Paul Collins, argued this weekend that a more commercial focus was needed to improve shareholder value.

Since the coup Brierley shares have slipped from NZ$1 to less than 70 cents. Camerlin paid $NZ1.40 a share for its 20 per cent stake.

Before yesterday's meeting Sir Roger appeared confident of having the votes to counter moves to oust him or change his policies, although there were questions over the way the company founder, Sir Ron Brierley, or the director representing the Singapore government might vote.

A statement last night said Brierley directors had agreed to complete the strategic review being promoted by Sir Roger.

As a result, Camerlin had withdrawn its notice to call a shareholders' meeting to consider Sir Roger's future as a director.

The statement said Sir Roger would remain executive chairman to oversee the changes to the company and the appointment of a new chief executive. After that he is to step down as chairman. No timetable was given.

Last night's statement made no mention of the size of Brierley's dividend. Camerlin, which is reputedly under financial pressure, was demanding it be maintained at 9 cents a year, a level Sir Roger said was too high.

Directors appear to have also given themselves another week to consider the financial results for the year to June 30.

This announcement, which should include the size of the final dividend, will now be made on September 10, a week later than expected.

Astra reports Rp7,360bn interim loss

By Sander Thoenes in Jakarta

Astra International, Indonesia's biggest car producer, yesterday responded to a first-half loss of Rp7,360bn ($657m), which it blamed on its foreign debt, with promises to lift exports, divest shares to its partners and sell a subsidiary.

Astra, which dominates the Indonesian market through its joint ventures with Toyota, Daihatsu and Isuzu of Japan, said some Rp7,000bn of its loss reflected foreign-exchange losses on its $1bn foreign debt.

Last year Astra reported a profit of Rp439bn at the interim stage. The balance sheet this year was drawn at an exchange rate of Rp14,900 to the US dollar, compared with Rp2,450 a year before.

The latest setback follows the suspension of production earlier this year when sales collapsed. Astra will produce only 1,000 cars in September, but said sales revenues fell only 6 per cent to Rp7,190bn during the reporting period. The company has doubled its prices in recent months.

Unit sales fell 78.46 per cent, with sales of Astra's Honda motorcycles dropping 63.14 per cent to 151,556 units. Indonesian car producers say they have often been selling at a loss as the rupiah dropped faster than they could adjust prices.

Component exports were up 60 per cent in the first six months, but the company did not say from what level. Astra said it would adapt production lines such as plastic injection, casting, ferrocasting and moulding to make exportable products.

The company expected to make $90m on the sale of its Microtonics Technology unit, which produces semiconductors. Astra has an 85.3 per cent stake in Microtonics, while Astra Graphia, an affiliate, holds 14.7 per cent.

The group also said it had invited Toyota and other partners to increase their stake in production joint ventures. However, Toyota, the largest investor and the manufacturer of the popular Kijang family van, indicated earlier this month it had no plans to raise its shareholding. Other partners are Daihatsu, Isuzu, BMW, Peugeot, Nissan and Honda.

Meanwhile, Astra has appointed some of its largest creditors – Chase Manhattan, Sumitomo Bank and Sakura Merchant Bank – as advisers for a debt restructuring agreement.

Rini Soewandi, Astra's new president, said earlier this year that the company would not survive into 1999 unless the rupiah strengthened. The currency has sharply appreciated in recent weeks, from Rp15,000 to about Rp11,000 to the US dollar, but car producers and analysts say it is still well above any rate at which companies such as Astra could resume profitable domestic sales.

Herman Latif, chairman of the Gaikindo association of automotive industries, expected car sales in Indonesia to drop to 50,000 in 1998 from 386,000 last year.

Worst hit are component producers, which saw orders collapse and, according to Mr Latif, many have already shut down.

PartnerRe doubled by Winterthur buy

By William Hall in Zurich

PartnerRe, the fast-growing Bermuda-based reinsurer, will more than double the size of its business with the $750m acquisition of the reinsurance activities of Winterthur. The move strengthens its role as the main challenger to the big four reinsurers which have traditionally dominated the global reinsurance industry.

The deal is PartnerRe's second big acquisition in the past 18 months. In March 1997, it paid $950m for Société Anonyme Française de Réassurance, a European direct reinsurer with annual premiums of about $700m.

In the first six months of 1998, PartnerRe increased its net income by 22 per cent, to $147.7m, and increased its net premiums by 160 per cent to $438m. Following the latest acquisition, PartnerRe's workforce will rise to more than 600, compared with 30 two years ago.

The global reinsurance industry has been undergoing rapid consolidation over the past year. In June, Warren Buffett's Berkshire Hathaway insurance operation paid $22bn for General Re, the world's second biggest reinsurer, and last month Swiss Re, which helped to found PartnerRe and retains a 22 per cent stake, paid $1.8bn for Life Re, a fast-growing US life reinsurer.

PartnerRe, set up five years ago to specialise in natural catastrophe reinsurance, has begun to diversify into more general reinsurance and compete more directly with the big four global reinsurers led by Swiss Re.

PartnerRe has often been rumoured as a takeover candidate itself, but Herbert Haag, 51, a former Swiss Re executive who has headed PartnerRe since its 1993 stock market flotation, says he intends to build his company into a credible alternative to the global reinsurers in every market.

Winterthur's decision to leave reinsurance follows its SFr14.3bn ($9.8bn) acquisition by Credit Suisse last year.

Since then it has been refocusing on its core direct insurance operations. In July it sold its 51 per cent stake in the Australian insurer HIH Winterthur for SFr400m, and the latest deal is expected to raise a further SFr1.1bn in cash. PartnerRe expects to finalise the deal by October 1.

Winterthur Re produced gross premiums of $837m in 1997, of which non-life premiums were $582m and life premiums $255m.

Total assets exceed $3bn. Some 57 per cent of the business originates in the Americas, 35 per cent in Europe and 8 per cent in Asia.

Mr Haag said Winterthur Re was a "highly successful and profitable business" and its speciality orientation in non-life and life business complemented PartnerRe's underwriting teams and book of business.

FBDC to issue 1bn pesos of debt

By Justin Marozzi and Tony Tassell in Manila

Fort Bonifacio Development, developer of Manila's largest property project, plans to issue 1bn pesos ($22.6m) of short-term commercial debt to shore up its financial position and finance further development.

FBDC, a joint venture between the Philippine government and a private-sector consortium led by Metro Pacific, yesterday gained approval from Philippine Securities and Exchange Commission for the issue, which will be carried in two tranches of 500m pesos.

FBDC is converting part of a former military base into a 214ha city outside Manila's financial district of Makati. It has long argued it has been insulated from the collapse of the Philippine property market because of its large cash position.

Although some of the funds from the issue have been earmarked for development at the site, some will also be used to compensate any defaults by developers involved in the project.

Ronald Mayor, vice-president for sales and marketing for FBDC, said many of the developers had been affected by the downturn in the property market. "All are feeling the brunt of the difficult market situation."

FBDC plans capital expenditure of 1.8bn pesos in 1998, with a further 1.5bn pesos for 1999. The group's receivables stood at 11.5bn pesos at the end of last year, according to Colbert Nocom of ING Barings, with a cash position of 373m pesos.

Analysts said the debt issuance would ease short-term problems but Fort Bonifacio would be disappointed if it expected the situation to improve within a year.

"In the medium term, as long as the economy doesn't pick up, Fort Bonifacio will be delayed significantly, and you're not going to see this great global city," said one analyst. "But in the longer term, First Pacific is very strongly committed to it."

Grolsch turns down bid approach by Interbrew

By Gordon Cramb

Interbrew of Belgium yesterday abandoned a long-rumoured pursuit of Grolsch, after the Dutch producer of premium beers confirmed it had received a bid approach but rejected the proposal in sharp terms.

Directors of Grolsch – in retreat from European expansion amid an earnings slide – said their view of the company's future was "irreconcilably divergent" with that of Interbrew. But they did not repeat past pledges that they would seek to maintain its independence, and the shares jumped Fl 7, or 15 per cent, to Fl 53.50.

Neither would confirm reports that the Interbrew offer would have been Fl 70 a share, valuing Grolsch at some Fl 1.2bn ($599m).

Interbrew, maker of Stella Artois and owner of Labatt in Canada, is Europe's largest brewer after Heineken. In global volume it is close to 10 times the size of Grolsch, and through brands such as Oranjeboom already claims nearly 30 per cent of Dutch beer sales, twice the market share of its bid target.

Johnny Thijs, chief of Interbrew's operations in Europe, Asia and Africa, said: "I have a good company there, so it is not a problem. It was an opportunity." He said job losses envisaged in the bid proposal were not on the substantial scale suggested by Grolsch management, though he declined to specify numbers.

The Dutch company gave this as a main reason for rejecting the offer. A plan announced by Grolsch in February involves shedding 150 of its 975 jobs by centralising production at a brewery to be built in Enschede, near the German border.

Grolsch intends to shut its existing sites there and in nearby Groenlo. While backing the Groenlo closure, the Belgian group wanted to keep the other plant open and use its own facilities to supply the extra capacity.

Mr Thijs met the Grolsch board – headed by Jacques Troch, a Belgian who is a former head of Interbrew's Dutch operations – but made no headway. He described the Fl 300m investment in the Enschede plant as "not sensible".

After charges related to the closure, profits at Grolsch fell 59 per cent last year to Fl 24.6m. The company gave up plans to establish a network of plants across Europe, concentrating instead on distribution tie-ups with foreign partners.

In the UK it is handled by Bass, mentioned by analysts yesterday along with Anheuser-Busch and South African Breweries as possible bidders.

But Roel Gooskens, of HSBC Van Meer James Capel, argued that industry leaders would be wary of joining battle with Heineken on its home territory. Heineken, which would face competition problems, has previously made clear its lack of interest. Like most Dutch companies, Grolsch has adequate defence mechanisms against a hostile bid.

NEWS DIGEST

ENTERTAINMENT

Viacom announces $1.75bn share buy-back

Viacom shares rose yesterday after the entertainment group announced plans to buy back up to $1.75bn-worth of its own stock, which has fallen more than 20 per cent in the past month.

Although the company's market value is still about 80 per cent higher than a year ago, lifted by cinema successes and the recovery at its Blockbuster video rental chain, it has lost ground recently as fears of shrinking advertising spending have depressed the media and entertainment sector.

Viacom's widely traded B-class shares had risen $1¼ to $55⅝ by mid-morning as investors reviewed the possible reasons for optimism in the company's boardroom which they assumed lay behind the move.

Third-quarter income and revenues are likely to benefit from last night's release of the home video version of *Titanic*, the highest-grossing film on record. Paramount, Viacom's studio arm, owns US rights to the feature, which was made in a joint venture with 20th Century Fox, the News Corporation division which owns international rights.

Viacom's reputation has been improved by recent strategic shifts including the sale of most of the Simon & Schuster publishing business to Pearson, publisher of Financial Times. Gross receipts of $4.6bn will be used to reduce group debt by more than half.

Viacom said it would finance the buy-back from working capital. **Christopher Parkes, Los Angeles**

TELECOMS

Bezeq returns to the black

Bezeq, Israel's state-controlled telecommunications company, returned to profit for the first half of the year after taking a Shk1bn ($259m) charge for restructuring costs in 1997. Net profits totalled Shk342.3m, compared with a net loss of Shk423.6m last time. But revenues slipped from Shk4.59bn to Shk4.38bn following the dismantling a year ago of its monopoly on international telephone calls.

Analysts said Bezeq was in a strong position to improve net earnings, since provisions for expenses in the coming years would be significantly reduced after a restructuring programme which cut the workforce by 20 per cent.

In addition, Bezeq has cash-flow of Shk2.5bn, which will allow it to enter lucrative markets in the telecoms sector. The government holds a 60 per cent stake in Bezeq. Once options for bonds, warrants and convertible securities are exercised by 2001, its stake will be reduced to 54.6 per cent, although there are plans to sell 20 per cent of the company next year. **Judy Dempsey, Jerusalem**

BEVERAGES

Pepsi opposes Orangina deal

Pepsi is stepping up efforts to dissuade the French government from sanctioning the FFr5bn ($840m) sale of Orangina to Coca-Cola, its US soft drinks rival.

In an interview in Le Monde, Charles Bouaziz, managing director of Pepsico France, said the company was ready to sign a deal giving Orangina 10-year renewable exclusive rights to produce and market all of Pepsi's drinks brands in France, except Tropicana fruit juice. He said this would lift the value of Orangina, enabling Pernod Ricard, its current owner, to think of a flotation. He acknowledged, however, that Pernod was unlikely to recoup the FFr5bn offered by Coca-Cola, which, he indicated, was the equivalent of about 40 times Orangina's earnings.

Pepsi already has an exclusive distribution agreement with Orangina for drinks consumed outside the home. Pernod announced the sale of the brand to Coca-Cola last December. A decision whether to permit the deal to proceed is expected from the government next month.
David Owen, Paris

HOLDING COMPANY

Israel Corporation improves

The Israel Corporation, one of Israel's biggest holding companies, yesterday said capital gains from the sale of subsidiaries boosted net income to Shk152m ($39m) in the first half of the year, after net losses last year.

However, the struggling conglomerate continued to be burdened by losses at Zim and Oil Refineries, its shipping and energy subsidiaries, although Zim's losses narrowed from Shk87m in the first six months of 1997 to Shk35.2m this year.

Excluding one-off capital gains of Shk170m, group net losses were Shk18m in the first half, compared with Shk26m last year. Revenues fell 10 per cent from Shk1.76bn to Shk1.583bn. **Avi Machlis, Jerusalem**

TYRES

Bridgestone upbeat

Bridgestone, the Japanese tyremaker, reported Y46.7bn ($326m) in net earnings on a consolidated basis for the first six months of the year in its maiden interim results announcement.

The group, which recorded Y1,090bn in turnover, confirmed its previous forecast that net profits for the full year would more than double, from Y39.2bn to Y100bn. It attributed the projected increase to a change in accounting procedures in 1997 which resulted in extraordinary losses from the write-off of goodwill incurred in its purchase of Firestone of the US.

Sales are expected to increase 2.7 per cent to Y2,230bn. "Domestic sales will continue to be weak. In our overseas markets, especially in the US and Europe, the economy is very healthy and so we can expect further expansion in sales," Bridgestone said.

Analysts said the group could even exceed its current earnings estimates. Goldman Sachs said that the weak yen and a growing presence in the US would support strong growth in profits this year.
Alexandra Harney, Tokyo

CHINA TELECOM

HK arm meets expectations

China Telecom (Hong Kong), the listed arm of China's main telecoms operator, yesterday reported a net profit of RMB3.47bn ($420m) for the six months to June 30 in its first earnings announcement since listing in Hong Kong and New York last October.

The results, which were at the higher end of expectations, were boosted by an exceptional gain of RMB1.08bn from interest income. The company, which this year paid $2.9bn to acquire one of the mainland's biggest cellular networks, said it would continue to explore opportunities to acquire high-quality mobile networks.

Acquisitions of mobile networks in China's wealthiest provinces have fuelled growth to date. The company boasts a total of 5.45m cellular subscribers, representing a 27 per cent growth over the 4.28m pro-forma combined number of subscribers at the end of 1997.

Earnings per share for the interim period came to RMB0.29. **Louise Lucas, Hong Kong**

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DETERGENTS ANGLO-DUTCH GROUP TAKES NEAR-10 PER CENT OF UK MARKET

Unilever claims advantage in soap war

By John Willman, Consumer Industries Editor

Unilever is claiming to have won a tactical advantage in the continuing soap war against arch-rival Procter & Gamble with the launch of its latest weapon – solid detergent tablets.

The Anglo-Dutch group's Lever Brothers subsidiary has taken almost 10 per cent of the UK market with Persil Tablets, launched four months ago with a multi-million pound advertising blitz on television.

The success of the new product means Persil has overtaken Procter's Ariel as the number one UK detergent brand – recapturing the lead it lost after the Persil Power fiasco in 1994. Then Lever Brothers was forced to withdraw a new formulation after its patented "accelerator" ingredient was found to weaken fabrics and leave colours faded.

The US group remains dominant overall, with more than 50 per cent of the UK market for Ariel and other brands such as Daz, Bold and Fairy. But the launch of Tablets has taken the Lever Bros portfolio – which also includes Surf, Radion and Lux – back above 30 per cent. The balance is largely held by retailers' own-label detergents.

According to Iri Infoscan, the marketing information group, Tablets took 9.4 per cent of UK detergent sales in the latest four-week period to July 31. One in seven households has tried the product and almost half have made a repeat purchase.

Lever Brothers says sales of Tablets have grown twice as fast as expected, reaching the company's six-month target after just three months. "The response has been one of the most amazing for any of our product launches," says John Ballington, corporate and consumer affairs director.

This success has come partly at the expense of standard "big box" powders, but mostly from concentrated powders. Lever Bros predicts Tablets will catch up with concentrated powders by early next year.

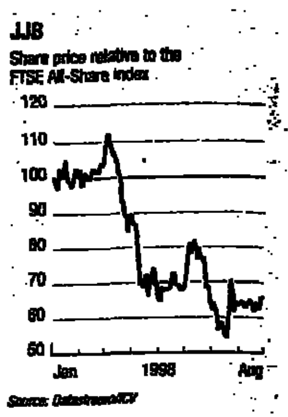
Concentrated powder has been in decline after peaking at around a third of the market, largely because consumers see it as bad value. People tend to use more than the recommended amount – adding to the cost of a product that is already 50 per cent dearer per wash than standard powder.

Tablets are as compact as concentrates, but use unit-dosing to reduce waste. Wrapped in pairs, two are added to a standard wash and cost about 25 per cent more than the correct amount of standard powder.

Since their UK debut, Tablets have been launched in France, Spain, Greece, Portugal and Ireland. Procter & Gamble is test-marketing its own Ariel Discs in the Grimsby area and is expects to decide whether to go for a national launch later this year.

COMMENT

Rights issues



Source: Datastream/ICV

One consequence of the stock market correction is that a couple of rights issues have been caught in the cross-fire. On Friday, JJB Sports' shares fell to 432p – just below the 440p offer price in a £112m rights issue closing today. If that is as far as they fall, the underwriters will be counting their lucky stars: their loss would be capped at £2m. The underwriters of Torotrak, a high-tech engineering company, will be less happy. Only 3 per cent of its £50m rights issue was taken up and the shares have since sunk 44 per cent, meaning those left with stock are sitting on a paper loss of over £20m. Still, shed no tears for the underwriters. These losses have come at an opportune time – just as the Monopolies and Mergers Commission is investigating whether they overcharge their corporate clients. Expect underwriters to argue that JJB and Torotrak show the business is not always money for old rope.

AMP

George Trumbull, chief executive of Australia's AMP, is an ambitious man. Barely two months after he took the mutual insurance company public, he has launched a A$3bn (£1.1bn) hostile bid for GIO, a fellow Australian insurer, and assembled a A$12bn warchest for acquisitions elsewhere – especially the UK. All that follows the acquisition of Henderson, the UK fund manager, in March.

Is this hyperactivity the latest example of a newcomer being carried away by the freedom afforded by capital markets? Probably not. Consolidation is needed in Australia's and Britain's insurance industries – and AMP is well-positioned to participate in both. In the UK, it already owns Pearl Assurance, London Life, Henderson and AMP UK, and has a half share in Richard Branson's Virgin Direct. Acquiring another life assurer would offer an opportunity to strip out costs.

But what does Mr Trumbull have his eyes on? The latest rumour, Norwich Union, is almost certainly wrong. For a start, Norwich's £8.7bn market capitalisation is about 10 per cent more than AMP's, so an all-cash bid would be virtually impossible. Meanwhile, it would be tricky to make a hostile all-paper offer, however much AMP's aggressive appetite may have been whetted by the GIO bid. Mr Trumbull may be ambitious but he probably has his sights on something smaller.

Ingredients help Kerry rise 20% to I£38m

By John Murray Brown in Dublin

Kerry Group, the acquisitive Ireland-based food company, lifted interim pre-tax profits nearly 20 per cent, underlining its continuing shift away from the commodity end of the market towards higher value added ingredients and consumer foods manufacturing.

Pre-tax profits for the six months to June 30 increased from I£31.9m to I£38.1m (£32.2m) on turnover 24 per cent higher at I£778m (I£625m).

The ingredients division increased sales 12.9 per cent, while the consumer foods – where Kerry is a big supplier of prepared foods in the UK – saw sales up 13.3 per cent with operating profits up 18 per cent. Ingredients now account for more than half of group turnover.

Profits at Kerry included a charge of I£2.2m in relation to the amortisation of the I£216.6m of goodwill arising from the company's acquisitions during the period.

The company spent I£343m on acquisitions in the first half – the majority of which was accounted for by the purchase of Dalgety's food division in January. It said yesterday it was planning to extend its range of ingredients in the South American and Asia-Pacific markets.

Sales from continuing businesses rose 12.6 per cent, although currency adjustment on its foreign based business accounted for 7-8 per cent of the increase.

Interest charges grew from I£13m to I£16.6m, as a result of the increased borrowings used to finance the various acquisitions.

The companies acquired during the current period contributed 9.5 per cent of turnover and 8.5 per cent of operating profits.

Operating margins improved from 7.2 per cent to 7.3 per cent reflecting better trading in ingredients and consumer foods markets. Sales from Ireland were broadly flat but sales and operating profits across its European and American markets showed strong growth. In the US, sales were up 15 per cent while operating profits rose 21 per cent.

The dividend increases 15 per cent to 1.68p (1.46p) to be paid out of earnings per share before goodwill amortisation of 18.2p, compared with 16.4p in the previous year.

Old Monk heading for Aim

By David Blackwell


Gerry Martin: 'realistically in 12 months we will have 30 pubs'

Gerry Martin picked up the habit of opening new pubs from his brother Tim, the driving force behind JD Wetherspoon.

Gerry, two years younger than Tim at 41, left Wetherspoon four years ago to found The Old Monk Company, which is to be floated on Aim this month.

The Old Monk Company has grown from a single pub to an estate of 18, based mainly in London and south-east England. Mr Martin, who will retain 60 per cent of the shares, is hoping to raise £3m through a placing to speed up the expansion rate.

"Realistically in 12 months we will have 30 pubs, and conservatively in three years we will have 50", he said.

Mr Martin spent four years working at Wetherspoon as development manager through the period of the flotation and expansion from 18 to 66 pubs.

Mr Martin has also worked for GrandMet's Chef & Brewer, and Allied Domecq's Taylor Walker.

"But I always harboured ambitions to go out on my own", he said. He sold his Wetherspoon shares to raise £300,000 in order to buy the first pub.

He believes it is easy to get up to between 70 and 100 pubs – but then the going gets much tougher.

There is a long way to go to catch up Wetherspoon, which now has 255.

Amey forms rail technology company

Amey, the infrastructure maintenance and facilities management specialist, has formed Amey RailTec, which will focus on rail technology.

Brian Staples, group chief executive, said that under-investment in the rail industry "need to be overcome". He added that the company was formed to create a "technological solution business".

It will draw together technology from other industries in the UK and overseas to provide solutions to problems associated with rail maintenance.

Brussels clears GEC venture

By Samer Iskandar in Brussels

The European Commission yesterday approved the non-military aspects of a proposed joint venture between General Electric Company, of the UK, and Italy's Finmeccanica. These activities are part of a wider agreement also covering defence businesses, including ground and naval radar and missile systems.

However, under EU law, the UK and Italian governments are exempted from notifying the Commission of the military aspects of the deal because of "essential security interests".

The non-military activities of the venture include air traffic control and management systems, civil command, information systems, and simulation and training products.

The Commission said that in the areas it examined, the combined market shares of the two companies remained low and that competition was strong from other EU companies, as well as from US rivals present in the EU.

Avocet to list with £70m tag

By Robert Wright

Avocet Hardware, a Yorkshire-based maker of security products for doors and windows, is planning a full stock market listing in which it is aiming for a market capitalisation of at least £70m ($115m).

The company was formed in March last year through a management buy-out from SIG, the Sheffield-based maker of insulating material.

The company claims "headline operating profits" of £8.59m on sales of £75.1m for 1997, although pre-tax profits were considerably lower at £1.76m after including interest payments of £4.26m and adjustments for goodwill and fair value.

About half of Avocet's products are manufactured in south-east Asia. Plans for the float depended on market conditions, the company added.

Hawkpoint Partners has been appointed as sponsor to the issue, while Merrill Lynch is broker.

Pharmacy in reverse deal with Hartford

By David Blackwell

Pharmacy, the trendy Notting Hill restaurant designed and part-owned by artist Damien Hirst, is to be reversed into Hartford Group, which is planning to build a branded restaurant business.

The reverse takeover has been masterminded by Michael Edleson, the Manchester United director who brought Sheffield United and Leicester City football clubs to the stock market through reverse takeovers.

Hartford was floated on Aim in March via a placing of 33.5m shares at 2p. The shares were suspended last month at 2.75p at the start of talks with Bluelodge, owner of Pharmacy.

The group, which is planning to sell its clothing business for £750,000, is paying up to £7.2m ($11.9m) for Bluelodge in a paper deal.

It will issue 644.6m new shares worth £3.6m as the initial consideration, with a further £3.6m of shares to follow if profits targets are met for the year to June 13 1999.

Matthew Freud, chairman of Bluelodge, will become chief executive of Hartford.

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MANAGEMENT GLOBAL DEVELOPMENT

At home in the world village

An unassuming Swiss company has used tactics associated with high-profile multinationals to dominate its niche, says **Peter Marsh**

A leading brand name, highly developed distribution channels, low-cost manufacturing, and product development spread globally. These sound like the hallmarks of a successful consumer goods company, set in the mould of a Coca-Cola or a Benetton.

In fact, they are precisely the ingredients used by Schaffner, an unassuming Swiss company, which has carved out the number one spot for itself in an expanding niche of the world electrical engineering business.

Schaffner, formerly part of Elektrowatt, the Swiss industrial conglomerate, was spun off in a management buy-out in 1996 and listed on the Zurich stock exchange in a public offering two months ago.

The company has a 20 per cent share of the SFr500m ($330m) a year industry making specialist electrical filters that screen out electromagnetic interference.

This is the invisible "smog" radiated by every type of electrical appliance, from toasters to telephones, which can wreak havoc with a range of computer-controlled equipment.

Manufacturers in fields from power stations to mining equipment need to install these filters in their products to shield them from interference. Other companies, such as those making portable computers, are increasingly required to install similar circuits to minimise "smog" emissions.

Aeroplanes' electronic systems have been known to have been "hijacked" by this kind of phenomenon. It may also explain the signalling equipment on trains sometimes breaking down or car airbags being deployed for no apparent reason.

This is why the world market for circuitry of this sort is reckoned to be growing by about 8 per cent a year. Schaffner gained its sales of SFr133m last year through selling specialist "black boxes" for screening or filtering electromagnetic radiation, plus associated test equipment, to a range of manufacturers around the world.

Big customers include Otis, the US company that is the world's biggest lift manufacturer, the Royal Air Force and ABB, the Swiss-Swedish electrical engineering giant. Only 2 per cent of Schaffner's sales are in Switzerland, another 71 per cent in the rest of Europe, while North America accounts for 20 per cent.

Alex Oechslin, Schaffner's chief executive for the past 17 years, says the company sets out to exploit its global leadership by promoting its brand vigorously. Competition in this sector is tough, with dozens of small regionally based suppliers but few other global players.

Schaffner, says Mr Oechslin, is trying to act as a "one-stop shop" for customers. It emphasises the company's global approach and offers a mixture of consultancy and sales of customised and standard circuits to suit different needs.

Crucial to this is the emphasis on a quick turnround between orders and despatch of products, increasingly needed to fit in with the shrunken development times of many products in the world of electronics and electrical goods.

Sales staff are sometimes able to arrange for delivery of standard parts within a matter of days. If the component has to be designed from scratch then, inevitably, the process takes longer – possibly about three months.

Production economies arise from practically all the company's manufacturing being in low-cost Thailand, which is where roughly half Schaffner's 1,200 employees work. The Thai plant concentrates on standard or catalogue items and is supplemented by production facilities in Switzerland and Ireland for special or customised circuits.

It was established in 1989 as a way of pushing manufacturing away from the high labour costs of Luterbach, in central Switzerland, where the company was set up in 1962. While the company's headquarters for engineering development, marketing and administration continue to be in Luterbach, Mr Oechslin says that telephone and data links with Thailand are sufficiently advanced to keep the different parts of the company in touch with each other.

The invisible 'smog' radiated by every type of electrical appliance can wreak havoc

With manufacturing spread out globally, Switzerland accounts for only 270 of the company's employees, compared with 700 in the 1980s, a highly important factor in maintaining profitability.

As for product development, Schaffner has gone about as far as anyone in setting up a "virtual" engineering centre.

The company's 60-strong team of development engineers is scattered around "satellite" centres close to customers in Europe, the US, China and Japan, with only 10 of them working from Luterbach.

They can swap data and ideas electronically to ensure development groups in one region learn about new trends in electromagnetic screening elsewhere, and can come up with new solutions accordingly.

As recently as six years ago, almost all the company's then 30-strong development engineering group was based in Switzerland, with less opportunity to pick up on new ideas globally.

Mr Oechslin says that the split between manufacturing in south-east Asia and other functions spread around the world makes sense for a company such as Schaffner, whose success depends on keeping costs down and being close to customers.

"The world is increasingly resembling one big village and we want to make sure we remain at the centre of it," he says.

Alex Oechslin: Schaffner tries to act as a one-stop shop

PEOPLE ON THE MOVE

Marram replaced by Rodkin at Tropicana

Ellen Marram, chief executive of Tropicana Products, has decided to go her own way following PepsiCo's $3.3bn (£2bn) purchase of the US fruit juice company from Seagram. In her place, Tropicana will be headed by **Gary Rodkin**, 46, who was previously president of Tropicana's North American operations and Marram's number two.

Before selling Tropicana to PepsiCo, Seagram had been planning to take it public, a decision that had been keenly anticipated by Marram. "I would have been chairman, chief executive, and president of a public company, and that certainly would have been wonderful.

"I know there's been some conjecture that that's the reason I decided not to stay, but the more straightforward reason is that I'm interested in new challenges.

"I'm certainly interested in the position of chief executive or chief operating officer of a large independent company, but I'm open to new challenges in general."

Rodkin has headed Tropicana's North American operations, which account for 80 per cent of revenues, for five years. Before that, he was with General Mills, where he was president of the Yoplait-Columbo yoghurt division.
Richard Tomkins, New York

Leckenby to lead printer

Note Printing Australia, a subsidiary of the Reserve Bank of Australia and a world leader in the printing of plastic banknotes, has appointed **John Leckenby** chief executive to replace the retiring head, **Robert Larkin**. Note Printing, formerly a division of the central bank, was last month established as a separately incorporated, wholly owned subsidiary.

Australia pioneered the use of durable plastic banknotes which are printed on a polymer material called Guardian. Australia is now printing currency notes for several other countries, as well as supplying domestic demand, currently estimated at 400m notes in circulation.

Leckenby, who was most recently Australian group general manager of building products at Email, the white goods manufacturer, has a strong track record in manufacturing and marketing. "At a time of immense opportunity for Australia's polymer technology in the international banknote market, he brings well-developed manufacturing and marketing skills," Note Printing said.

The polymer material, which looks and feels like paper, is marketed worldwide via Securency, a joint venture between UCB Films and the Reserve Bank of Australia.

The notes are more expensive to produce than paper notes, but last about four times as long, Note Printing said. They have proved difficult to counterfeit or to destroy, largely because of the incorporation of a clear window in the notes which defeats photocopying. The window can carry optically variable devices – images produced by electron beam exposure technology, which can be seen from both sides.
Gwen Robinson, Sydney

Johnson to Barclays Capital

Barclays Capital, the investment banking arm of the Barclays Group, has signalled renewed interest in Australia with the appointment last week of **Nicholas Johnson** to head its Australian operation. The group last year sharply reduced its Australian presence after selling the Australian and New Zealand operations of its Barclays de Zoete Wedd equities business to ABN Amro, the Dutch investment bank, for A$177m ($109.20m).

Johnson, 47, will develop business in debt lending and risk management from its Sydney base, with emphasis on the group's experience in the eurobond market. The decision follows restructuring of Barclays Capital's operations in the Asia-Pacific region and reflects growing interest among international investment banks in the Australian market. Barclays Capital's Australian arm has concluded a number of deals in the past year, including arranging a US$900m loan facility to finance the Southern Cross fibre optic cable project, and underwriting some large mining projects. Johnson in the past two years has headed business development at Commonwealth Bank of Australia, where he was involved in privatisation projects and corporate debt transactions. He replaces Steve Crane, who left Barclays after it sold its BZW Australia operations last December. Johnson began his banking career in Lebanon with Citicorp's Citibank.

From 1989, he worked in Sydney with CS First Boston as head of corporate advisory and project finance. He later joined Morgan Stanley in Australia as head of structured finance. Barclays Capital said his appointment brought "solid international banking experience, as well as significant advisory, structuring, and business development expertise" to the group's Asia-Pacific operations.

"Combined with our debt focus, his relationships with Australia's business and investment community will be extremely valuable in an important market," said Roger Davis, Barclays Capital Asia-Pacific chairman and chief executive.
Gwen Robinson, Sydney

FARMING FALLING PRICES EXACERBATED BY POOR WEATHER

Double blow for US agriculture

By Nikki Tait in Chicago

The maize fields in Wisconsin present a picture of prosperity – rows of tall, healthy crops ripening under a summer sun. But it is hardly a sight set to quicken the pulse of local farmers.

Maize prices are at their lowest for four years, and the prospect of the second biggest US harvest on record is a big factor in the decline.

Nor is this problem of low prices and plentiful supplies confined to corn: for varying reasons, it extends to oilseeds, other grains, and to many meat products.

As a result, official estimates suggest US farm income will fall to about $42.5bn this year, almost 20 per cent below the record of 1996. And that, in turn, has set the political drums beating, with the powerful farm lobby calling for financial assistance or some reversal of the deregulatory moves foreshadowed under the 1996 Freedom to Farm Act.

Essentially, the US agricultural sector is suffering from a double-whammy.

First, prices for a large number of agricultural products have been driven down by the collapse in Asian demand, at a time when production and supplies are high on many fronts. The Russian financial crisis has added to problems.

For example, a record US soyabean crop is expected this year, at about 2.82bn bushels. But this follows a very favourable growing season for the big South American producers. Soyabean prices are at their lowest since 1994, and well below the annual average price seen for the past decade.

In the livestock sector, Asian demand collapsed last year, just as the US cattle herd was being liquidated, compounding the steady, long-term decline in prices. Hog farmers had also expanded operations in early 1997, prompting a sharp decline in prices in the second half of 1997 as demand for pork exports fell away.

Second, there are weather-related problems. In California, for example, the summer began with abnormally cool weather. This delayed crop development, although some lost ground has now been made up.

Much more dramatic were the severe drought conditions that hit Texas and Oklahoma in July and August, shriveling crops, from cotton to corn. Parts of North Dakota and the Upper Plains, meanwhile, are still suffering the effects of past flooding and saturated land.

When weather-related production problems occurred in the past, they often served to push up commodity prices. This time, with world demand flagging, farmers will not see this benefit.

"It's something unusual this time," says Keith Leggett, senior economist with the American Bankers Association, which monitors rural finance conditions. But within this broad picture of declining farm incomes, most trade groups and analysts admit the hardship is very unevenly dispersed.

Last year, for example, farm income fell about 6.8 per cent overall but in the Midwest many states saw small falls, or even gains.

In Kansas, the decline was less than 4 per cent, and in Michigan, Missouri and Indiana, farmers notched up double-digit improvements. But in North Dakota, where wheat accounts for more than 40 per cent of farm commodity sales, farm incomes fell 91 per cent, from over $1bn to just $84m.

This year, the pattern is likely to be similar. Large harvests in important grain-growing areas should cushion many farmers there, while wheat farmers in the upper plains and all manner of growers in Texas, who are battling weather problems and low prices, will suffer badly – and probably garner most of the headlines.

"The US is a large country, and we always hear about the bad things. Farmers being what they are, they don't go out and brag about the good crops and yields," says the American Farm Bureau.

Moreover, even if the general environment is tougher, there are some pluses. Interest rates remain relatively low and Mr Leggett says agricultural banks are well positioned to support borrowers.

"From what we're hearing, the problems are fairly localised," he says, although he also suspects the effect of tumbling wheat prices – now down to seven-year lows – will ricochet further.

And while no-one wants to see individual farmers suffer, some analysts think the sector could have helped itself if more growers had been willing to lock into prices at the start of 1998, instead of gambling that the tail-end of the El Niño weather pattern would create broader production problems and push prices higher.

Nevertheless, two consequences from the declining conditions in the US farm sector seem inevitable.

First, the trend towards farm consolidation will probably continue. Second, pressure from the farm lobby to wind back some of the provisions to the Freedom to Farm Act – which was supposed to encourage deregulation of the US farm sector and wean it away from subsidies and price supports – will be stepped up.

Already, the Clinton administration has agreed to pay about $5.5bn of annual "transition payments" as a single lump-sum next October, rather than spreading them over a period of months. This should help ease liquidity problems.

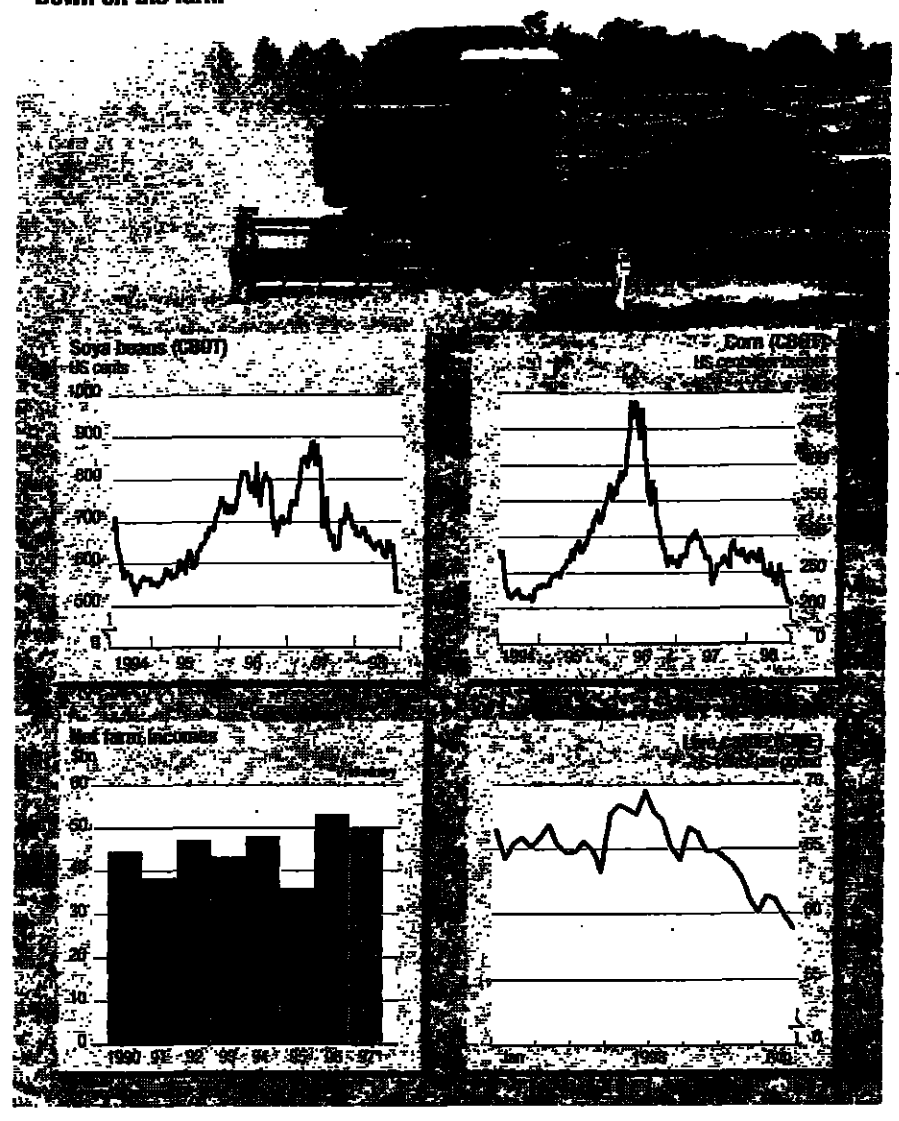
But now, there is broader pressure to retreat from some of 1996 ACGT's provisions – a debate spurred by the prospect of congressional elections due later this year and the need to secure seats in predominantly agricultural constituencies.

"The pressure is very real," says Rod Westmorland, vice-president at Sparks Companies, the Memphis-based commodity firm. But changes will depend on how those elections play out: "The first question is what flavour of Congress do we have?" he asks.

London markets

London commodity markets were closed yesterday for a public holiday. US market data appears below

Down on the farm



BEEF PRICES BELOW BREAK-EVEN

Texas cattle men hit by cheap imports

By Tony Walker in Meridian, Texas

Mike Domel, Texas cattle rancher, does not mince words. "It's a disaster," he says. "We're getting the same price for our cattle as we did 20–30 years ago: even if there wasn't a drought, things would still be bad."

Meridian, a small cattle-farming community two hours drive south of Dallas, is representative of ills afflicting the beef industry across the US.

Farmers tend to be pessimists, but US cattle men, like those clustered around a dusty sale-yard in rural Texas, appear to have particular reason for gloom, buffeted by a continuing decline in domestic consumption, cheap imports and Asia's financial crisis.

Mr Domel, both cattle producer and proprietor of the Meridian sale-yards, is pessimistic and blames competition from abroad for much of the industry's plight. "If the government persists with its policy of cheap food, they'll break 90-95 per cent of cattle farmers," he says.

Texas ranchers, who account for some 15 per cent of the US cattle herd of 99.5m, are also having to contend with one of driest spells on record and a resulting sharp rise in feed prices.

Farmers, who cannot afford feed, are sending more cattle to market, depressing prices to levels below those which are considered "break-even" by the National Cattlemen's Beef Association, umbrella organisation for beef producers.

Cattle prices last week touched 58 cents a pound, near the lows for the year. The cattle men's association estimates that production costs for farmers operating feedlots are 65-70 cents/lb.

In the first half of this year, sales of Texas cattle, because of drought and high feed prices, were up 8 per cent over the same period last year. This has led to near record beef production across the US, but has further depressed prices.

Chuck Lambert, chief economist for the National Cattlemen's Beef Association says low prices and drought are placing a huge burden on Texas farmers, who have been grappling with price declines since a high of 78 cents/lb in 1990.

Texas A&M University, in a survey of the costs of drought across Texas, estimates that losses to agricultural producers amount to some $1.5bn. Lost cattle revenues are about $50m, but that excludes livestock feed costs of about $150m.

The downturn in Asia has not helped. The US exports about 8 per cent of production, 75 per cent of which goes to Asia, with Japan taking about half. Exports to Korea were down about 50 per cent in the first six months of 1998 compared with last year.

Adding to problems is competition from lower-cost producers, such as Australia, Canada and New Zealand, which supply 87 per cent of US beef imports and whose currencies have depreciated sharply against the US dollar. Imports, which account for 9 per cent of US consumption, were up strongly in the first six months.

However, at the Meridian sale yards, ranchers' concerns seem far removed from international economics. With temperatures hovering around 100 degrees day after day, their main worry is lack of rain. "If it don't rain soon I'll have to get rid of my cows," says B.J. Stasey. He is far from alone.

COTTON TOTAL US PRODUCTION EXPECTED TO FALL 24%

Growers take small comfort from rising prices

By Nikki Tait

US cotton-growers have been rare beneficiaries of rising prices in the nation's agricultural sector recently. But, from Florida to California, that provides few of them with much comfort.

The cotton price flipped up from a low of about 60 cents a pound at mid-year to almost 80 cents this summer, before slipping back by about 5 cents more recently.

But the rise was triggered largely by the prospect of a much smaller than expected US harvest. Flooding of the Yangtze River, and the possibility that Chinese inventories had been damaged as result, then added to the more optimistic tone.

The first problem for growers is that this modest rally comes against a background in which prices have been drifting lower for several years. Three years ago, cotton was trading at more than 90 cents a pound.

The second is that the production difficulties have been fairly widespread. According to latest US Department of Agriculture figures, total US production will be 14.3m bales, down 24 per cent from 1997, with yields averaging about 640lb per acre, down by 40lb (or about 6 per cent) from last year.

Mark Lange, director of economic services at the National Cotton Council, says that searing heat in Texas hit the headlines, but growers in southern Alabama, southern Georgia and parts of the Florida panhandle were also affected by exceptionally dry conditions.

Growers in California, another important cotton-producing state, suffered difficult, and particularly cool, conditions at planting time. Yields there could be down by 20 per cent this year, Mr Lange estimates.

And even those growers who got by with average weather seemed to have experienced a bad year for insects – to which cotton is particularly susceptible.

"Insect-related costs are up and prices are down," says Mr Lange. "It's quite a squeeze."

JOTTER PAD

US COMMODITY PRICES

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.05	-0.30	73.70	71.20	4,724	8,166
Oct	71.75	-0.50	72.75	71.50	136	2,649
Nov	71.55	-0.65	71.90	71.40	52	1,747
Dec	71.35	-0.80	72.20	70.80	11,238	31,384
Jan	71.55	-0.80	72.20	71.30	19	1,952
Feb	71.75	-0.80	71.80	71.80	22	1,080
Total					14,045	62,347

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	275.7	+1.1	275.6	275.6	2	-
Oct	276.5	+1.1	278.0	276.3	1,347	11,731
Dec	278.9	+1.0	280.5	277.3	41,318	117.1k
Feb	280.6	+1.0	281.8	280.0	254	13,705
Apr	282.4	+1.0	283.1	282.0	250	11,193
Jun	284.2	+1.0	285.5	283.3	195	14,920
Total					62,362	205,895

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	359.5	+3.9	361.0	357.0	1,801	9,635
Jan	360.0	+3.9	361.5	357.5	44	1,127
Apr	360.0	+3.9	-	-	-	22
Jul	360.0	+3.9	366.5	365.5	-	16
Total					2,870	10,862

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	277.00	+4.50	277.00	275.00	236	833
Dec	273.00	+4.00	274.00	270.00	385	2,307
Mar	268.00	+4.00	-	-	-	25
Total					1,139	3,164

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	461.8	-1.4	473.0	461.5	15,280	9,533
Dec	467.8	-1.7	478.0	467.0	33,727	57,875
Jan	469.8	-1.5	495.0	495.0	13	38
Mar	471.9	-0.8	484.0	472.0	594	8,183
May	473.9	-0.8	476.0	474.0	10	1,815
Jul	475.9	-0.8	482.0	478.0	19	2,539
Total					50,222	83,527

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	13.38	-0.12	13.58	13.18	46,521	122.2k
Nov	13.62	-0.10	13.77	13.45	11,889	44,393
Dec	13.89	-0.12	14.04	13.75	7,306	68,453
Jan	14.15	-0.13	14.32	14.05	3,164	36,119
Feb	14.44	-0.09	14.52	14.31	573	18,352
Mar	14.62	-0.12	14.75	14.52	497	15,827
Total					77,821	483,703

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	35.35	+0.38	35.60	34.70	14,403	3,351
Oct	35.80	+0.06	36.30	35.30	18,302	53,043
Nov	37.05	+0.06	37.50	36.55	3,617	20,009
Dec	38.45	-0.04	39.00	38.00	4,551	25,346
Jan	39.90	+0.06	40.20	39.30	2,971	25,471
Feb	41.00	+0.11	41.10	40.40	1,315	17,017
Total					48,939	198,523

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	1.775	+0.111	1.780	1.695	27,597	57,169
Nov	2.010	+0.089	2.010	1.960	14,437	30,016
Dec	2.270	+0.065	2.270	2.230	8,322	31,592
Jan	2.395	+0.060	2.395	2.370	4,176	31,006
Feb	2.345	+0.050	2.345	2.325	2,133	18,094
Mar	2.280	+0.050	2.285	2.260	2,653	15,784
Total					64,274	272,940

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	40.55	-0.33	41.00	40.35	17,582	10,050
Oct	40.40	-0.20	40.85	39.90	15,858	41,980
Nov	40.70	-0.48	41.05	40.45	2,864	9,700
Dec	41.60	-0.45	41.95	41.35	1,066	8,099
Jan	42.65	-0.28	42.55	42.65	350	4,071
Feb	42.80	-	42.80	42.80	29	1,971
Total					38,822	84,162

FUTURES DATA
All futures data supplied by CMS.

GRAINS AND OIL SEEDS

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	237.50	-3.75	244.00	237.00	16,340	9,459
Dec	254.00	-4.50	261.50	253.50	20,943	77,830
Mar	269.50	-5.00	277.00	269.00	2,918	22,844
May	279.50	-4.75	287.00	280.50	132	4,144
Jul	290.75	-3.75	297.00	290.50	838	10,237
Sep	298.50	-5.00	302.00	298.50	23	353
Total					41,191	124,706

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	187.25	-2.50	192.00	187.00	32,524	22,305
Dec	199.50	-2.25	204.25	199.25	54,415	177,645
Mar	211.75	-2.50	216.25	211.50	7,554	54,341
May	219.50	-2.00	224.00	219.50	2,791	16,948
Jul	225.50	-1.75	229.50	225.25	5,617	25,825
Sep	233.00	-1.00	235.75	233.00	400	4,288
Total					104.7k	314,824

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	514.75	-3.25	523.75	514.50	6,538	7,762
Nov	511.50	-1.50	517.25	510.50	30,160	88,664
Jan	520.75	-2.00	526.25	520.50	2,907	19,202
Mar	531.75	-1.75	536.50	531.50	1,939	13,557
May	541.00	-1.25	546.00	541.00	463	4,866
Jul	551.00	-1.75	555.50	551.00	1,213	7,499
Total					43,647	145,064

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	23.54	-0.10	23.70	23.46	13,110	7,408
Oct	23.69	-0.12	23.85	23.57	10,801	25,466
Dec	23.82	-0.14	24.14	23.72	9,598	48,154
Jan	23.86	-0.15	24.05	23.80	1,153	7,646
Mar	23.89	-0.16	24.01	23.79	786	10,854
May	23.89	-0.16	24.05	23.80	569	4,234
Total					36,691	110,369

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	133.9	-0.5	137.0	132.8	13,809	11,290
Oct	129.9	-	131.5	129.8	6,322	26,687
Dec	131.6	-	133.4	131.5	11,029	64,172
Jan	133.8	+0.2	135.3	133.7	1,531	12,417
Mar	138.0	+0.1	139.0	138.0	958	11,522
May	141.3	+1.3	142.5	140.7	1,017	5,308
Total					35,533	138,376

SOFTS

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1575	+15	1598	1585	91	1,357
Dec	1614	+15	1635	1608	5,405	38,583
Mar	1654	+13	1672	1653	611	17,167
May	1679	+11	1700	1680	25	6,120
Jul	1705	+9	-	-	2	1,785
Sep	1731	+8	1725	1725	28	1,860
Total					8,210	73,878

■ COCOA (ICCO) (SDR's/tonne)

Aug 28	Price	Prev. day
Daily	n/a	1283.39

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	121.00	-1.50	124.50	118.50	42	1,366
Dec	116.35	-2.55	121.00	113.00	4,143	14,744
Mar	111.95	-3.00	116.50	111.00	523	5,731
May	111.90	-3.00	115.75	110.75	48	2,597
Jul	111.50	-3.40	116.00	111.50	40	1,202
Sep	112.50	-3.25	114.50	114.50	6	1,434
Total					4,766	27,271

■ COFFEE (ICO) (US cents/pound)

Aug 28	Price	Prev. day
Comp. daily	n/a	100.59
15 day average	n/a	99.95

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	7.55	-0.01	7.73	7.52	11,488	81,403
Mar	7.94	-0.06	8.22	7.80	7,661	53,075
May	8.09	-0.06	8.28	8.16	1,075	8,091
Jul	8.14	-0.07	8.38	8.20	284	7,155
Oct	8.37	-0.03	8.55	8.50	223	8,934
Total					21,050	165,290

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	72.11	-0.29	72.25	71.55	1,096	4,430
Dec	72.08	-0.30	72.30	71.50	11,813	36,052
Mar	71.87	-	71.95	71.10	1,266	18,283
May	71.79	-	71.75	71.40	1,119	9,557
Jul	72.28	-	72.30	72.15	951	5,911
Total					17,964	82,801

Softs continued

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	113.00	+0.25	113.05	111.15	2,995	2,685
Nov	116.65	-0.10	116.75	114.60	4,230	15,757
Jan	119.50	-0.10	119.50	118.00	1,160	5,509
Mar	122.80	-0.15	122.00	121.70	88	2,483
May	125.40	-0.15	124.50	124.00	-	730
Jul	128.20	-0.15	-	-	20	328
Total					8,473	27,521

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Aug	58.700	-0.400	58.950	58.500	273	380
Oct	59.000	-1.425	60.150	58.925	10,637	41,767
Dec	60.975	-1.200	61.950	60.950	4,514	22,717
Feb	62.025	-0.975	62.850	62.000	1,635	12,599
Apr	63.600	-0.725	64.325	63.550	602	5,574
Jun	62.275	-0.475	62.800	62.100	529	3,059
Total					18,195	86,655

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	37.275	-2.000	39.650	37.275	3,835	15,471
Dec	36.950	-2.000	38.725	36.950	3,061	9,895
Feb	41.550	-2.000	43.250	41.550	1,089	4,326
Apr	42.975	-1.775	44.800	42.900	164	1,160
Jun	52.375	-1.800	54.100	52.175	72	580
Jul	53.200	-1.325	54.450	52.850	63	268
Total					8,297	31,843

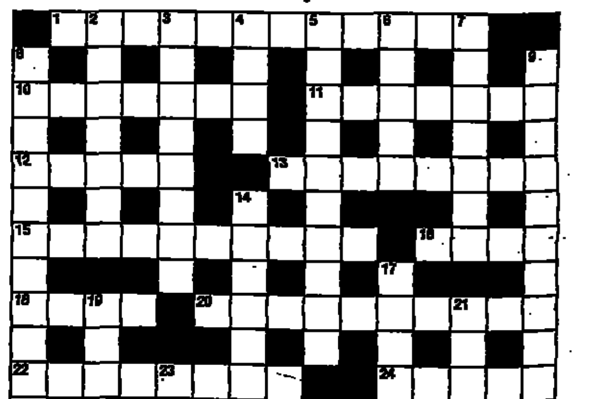
■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	46.950	-7.050	48.950	46.950	763	2,857
Mar	46.700	-3.250	49.000	46.700	24	63
May	48.400	-1.300	50.100	48.400	1	2
Total					803	2,941

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

CROSSWORD

No.9,775 Set by GRIFFIN



ACROSS

1 Secure in information on talk about instrument (12)
10 Told first man to mind about 2.471 acres (7)
11 Laboratory rejected fuel turning black (7)
12 Moving, as tired journalist's dropped off (5)
13 Steamed up one motorway in it incorrectly set (8)
15 Gorse piled round things in tents (10)
16 Fly Brown back after midnight (4)
18 Expel some famous trainees (4)
20 Group of soloists in love after recital (10)
23 Len's smug after beating depression (8)
24 Mountaineers do this with cold part of body (5)
26 Matrimonial work put in by a student (7)
27 Person from Spain, ie Brian Turner? (7)
28 Using very little money on pipe instrument (5,7)

DOWN

2 Found local man (50) missing (7)
3 Honour the RAF chaps on board (8)
4 Ruler we kept in a jug (4)
5 Settling for advance payments I study religion (10)
6 Enclosed by it not one African flower is opening (5)
7 One's job is full of ups and downs (7)
8 These old music-makers often had to rise (7,6)
9 Eccentric bores me with old tin instrument (5,8)
14 Officer therefore upset girl in a very big way (10)
17 In Escort travelling companion does some needlework (8)
19 Chip in foil raised in price (5,2)
21 Popular new Italian article lacking capital (7)
23 Where Ian stands with the navy (5)
25 Having intelligence and aspiration? (4)

Solution to Saturday's prize puzzle on Saturday September 12.
Solution to yesterday's prize puzzle on Monday September 14.

هكذا من الأصل

EURO PRICES

EQUITIES

Russia unsettles Europe again

EUROPEAN OVERVIEW

By Steve Thompson

Most of Europe's leading stock markets came under fresh selling pressure yesterday, unnerved again by what was viewed as a worsening economic and political scenario in Russia.

Frankfurt, Paris, Zurich and Amsterdam all made limited progress at the outset as traders scrambled to cover extensive short positions in the hope that Wall Street would come in firmer.

The US market began well, notching a 40-point gain on the Dow Jones Industrial Average. But this soon reversed and a three-figure fall on the Dow triggered a fresh wave of selling across Europe.

Germany's Xetra Dax index fell 2.3 per cent, France's CAC 40 1.4 per cent and Switzerland's SMI index 1.6 per cent. Russia's RTS index lost 1.7 per cent.

The FTSE Eurotop 100 index of leading European shares lost a further 25.87 or 1 per cent at 2,512.33 while the broader FTSE Eurotop 300 dipped 11.83 or 1.07 per cent to 1,088.99.

The FTSE Ebloc 100 index of companies within the proposed euro region fell slightly more in percentage terms, losing 14.83 or 1.63 per cent to 894.61.

Only three Eurotop industry sub-sectors were able to post gains – extractive industries, which edged up 0.83 or 0.13 per cent to 649.60; retailers, food, up 17.79 or 1.83 per cent to 988.90; and investment companies, up 1.94 or 0.21 per cent.

Strength in the retailers, food sector derived from a strong performance by Promodès, which added Ecu 9.2 to Ecu 592.23, and Carrefour, up Ecu 38.4 to Ecu 522.10.

The latter announced it is paying up to $3.12bn to acquire the 77.2 per cent of fellow retailer, Comptoirs Modernes, not already owned. The worst individual sectoral performance came from paper, packaging and printing, which retreated 24.58 or 3.22 per cent to 737.97, mostly on the back of weakness in forestry stocks.

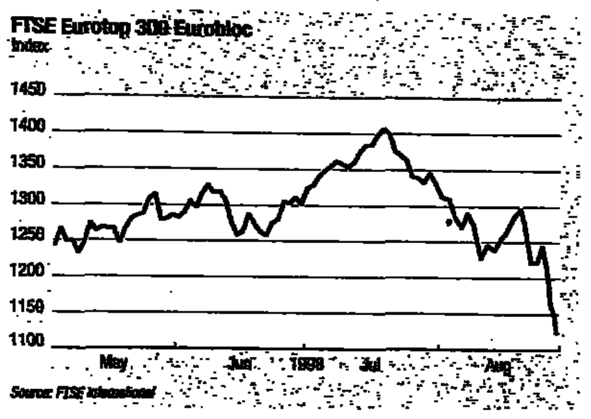
Among the worst-performing individual stocks were Alusuisse-Ln which fell Ecu 14.1 to Ecu 904.76 and BIC, down Ecu 3.4 to Ecu 50.23.

German banks took another hammering, linked to the Russia crisis.

Vereinsbank lost Ecu 4.8 to Ecu 68.16 after news of risk provisions totalling DM2.8bn for 1998.

FTSE Eurotop 300 Eurobloc

Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Oct		95.865	-			0	0
Dec	96.280	96.285	+0.030	96.300	96.250	130	8078
Mar	96.425	96.450	+0.080	96.445	96.410	682	5383
Jun	96.390	96.420	+0.085	96.400	96.390	42	1964

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Sep	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Sep	PUTS Oct	PUTS Nov	PUTS Dec
96000	0.005	0.298	0.300	0.315	0.140	0.005	0.015	0.030
96125	0				0.260			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2590.0	2538.0	-70.0	2590.0	2590.0	300	2872
Dec	2611.5	2559.5	-82.5	2611.5	2611.5	300	1179
Mar		2587.5	-82.5			0	70

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2600 C	2600 P	2625 C	2625 P	2650 C	2650 P	2675 C	2675 P	2700 C	2700 P	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P
Sep	58	1524	8	167	48	185	33	203	28	222	22	243	19	264	16	286
Oct	194	97	208	87	223	78	239	69	255	62	273	54	291	47	309	42

Est vol total 0 Prev day's open interest total: 6,769. Premiums shown are based on settlement prices.

OTHER INDICES

	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3007.60	3044.58	3100.85	3670.82	2574.51	3670.82	2976.42
DJ Euro Stx 50	2874.17	3009.74	3063.83	3858.49	2468.61	3858.49	2855.52
MSCI Europe	(u)	1082.47	1111.36	1318.55	960.50	1318.85	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

August 31 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1088.99	–1.07	–11.83	2.62	22.05	1117.86
FTSE Eurotop 100	2512.33	–1.02	–25.87	2.63	32.84	897.86
FTSE Ebloc 100	894.61	–1.63	–14.83	2.25	13.25	906.25
FTSE Eurotop 300 Regions						
Eurobloc	1125.98	–1.62	–18.60	2.24	19.61	1147.95
UK	1025.70	–0.17	–1.74	3.28	28.58	1069.58
Europe Ex-Eurobloc	1061.36	–0.51	–5.48	3.03	23.45	1094.11
Europe Ex-UK	1125.91	–1.53	–17.45	2.30	18.38	1146.31
FTSE Eurotop Industry Sectors						
RESOURCES	787.07	–0.33	–2.61	3.68	21.81	815.84
Extractive Industries	649.60	+0.13	+0.83	4.58	0.00	649.60
Oil, Integrated	761.27	–0.35	–2.70	3.64	15.03	773.34
Oil, Exploration & Prod	652.42	–0.12	–0.82	3.77	0.00	652.42
GENERAL INDUSTRIES	999.80	–1.40	–14.21	2.83	19.50	1019.03
Construction	916.91	–1.72	–16.05	2.76	11.06	927.57
Building Matls & Merchs	831.51	–0.24	–1.99	3.21	7.65	837.30
Chemicals	838.45	–1.33	–11.26	2.89	16.87	852.84
Diversified Industrials	861.31	–1.01	–8.82	2.54	17.48	876.06
Electronic & Elect Equip	865.52	–1.53	–13.41	1.96	4.89	869.70
Engineering	832.83	–1.67	–14.15	4.07	9.57	840.61
Paper, Pckg & Printing	737.97	–3.22	–24.58	3.18	1.21	738.88
CONSUMER GOODS	1087.26	–1.05	–11.54	1.77	14.97	1113.42
Automobiles	900.78	–1.35	–12.29	2.87	10.25	909.14
Alcoholic Beverages	858.84	–0.52	–4.53	2.58	5.82	865.00
Food Producers	904.65	–0.94	–8.56	1.79	9.13	912.63
Household Goods & Texts	986.65	–1.21	–12.09	1.99	7.01	993.09
Healthcare	881.97	–0.12	–1.10	1.39	9.52	890.93
Pharmaceuticals	959.68	–1.23	–11.90	1.37	4.27	963.88
Tobacco	997.81	–0.37	–3.72	4.33	1.81	998.69
SERVICES	1140.79	–0.66	–7.57	2.38	20.11	1169.54
Distribution	795.98	–1.41	–11.41	2.79	11.37	804.92
Leisure & Hotels	749.93	–1.00	–7.60	3.40	10.42	757.89
Media	932.85	–0.55	–5.18	2.55	9.63	941.74
Retailers, Food	988.90	+1.83	+17.79	3.08	10.70	999.68
Retailers, General	982.94	–0.35	–3.50	3.57	13.94	996.33
Telecommunications	1066.98	–1.27	–13.78	1.98	12.49	1079.41
Breweries, Pubs & Rests	776.30	–0.12	–0.97	3.61	14.20	788.10
Support Services	915.11	–1.07	–9.87	1.53	5.66	920.33
Transport	915.10	–0.62	–5.67	2.71	11.76	925.34
Information Technology	1106.11	–1.89	–21.25	0.37	2.23	1108.62
UTILITIES	1304.86	–0.80	–10.56	3.45	53.32	1375.41
Electricity	973.63	–0.84	–8.21	3.65	26.23	999.63
Gas Distribution	1022.08	–1.11	–11.43	1.84	84.61	1116.21
Water	1051.43	–0.12	–1.32	5.03	38.72	1091.59
FINANCIALS	1182.20	–1.39	–16.61	2.82	26.37	1212.69
Banks, Retail	828.41	–1.53	–12.84	3.59	12.52	839.00
Insurance	887.49	–1.21	–10.86	1.58	11.45	897.85
Life Insurance	1083.64	–1.17	–12.79	1.59	9.10	1092.95
Other Financial	893.40	–1.62	–14.67	2.29	13.23	905.19
Investment Companies	916.31	+0.21	+1.94	2.83	20.66	933.44
Property	753.43	–0.27	–2.04	3.68	16.01	767.27

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CURRENCIES & MONEY

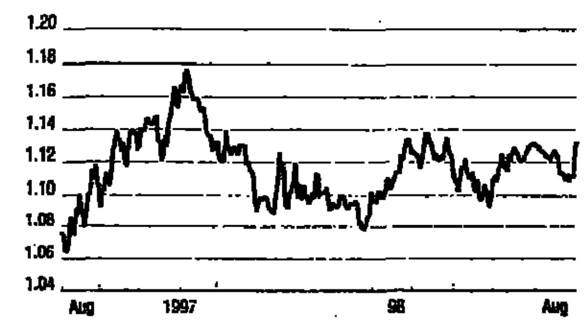
FT SYNTHETIC EURO RATES

Aug 31	Currency code	Closing mid point	Change on day	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	14.060364	+0.0063	+0.04	–0.0071	–0.05
Belgium	BEF	41.212974	+0.0050	+0.01	+0.0076	+0.02
Czech Republic	CZK	36.833557	–0.0123	–0.03	+0.1705	+0.47
Denmark	DKK	7.610657	–0.0332	–0.43	–0.0038	–0.05
Finland	FIM	6.061101	+0.0000	+0.00	+0.0017	+0.03
France	FRF	6.696596	+0.0003	+0.00	–0.0045	–0.07
Germany	DEM	1.998215	+0.0008	+0.04	–0.0010	–0.05
Greece	GRD	344.064854	+1.4333	+0.42	+4.9010	+1.45
Hungary	HUF	254.130811	+1.3218	+0.52	+3.5155	+1.40
Ireland	IEP	0.797360	+0.0016	+0.20	+0.0002	+0.02
Italy	ITL	1974.818673	+0.9969	+0.05	+3.0257	+0.15
Luxembourg	LUF	41.212974	+0.0050	+0.01	+0.0076	+0.02
Netherlands	NLG	2.254975	+0.0017	+0.07	+0.0008	+0.03
Norway	NOK	8.905343	–0.0468	–0.52	+0.1980	+2.27
Poland	PLN	4.230783	–0.0575	–1.34	+0.1309	+3.20
Portugal	PTE	204.671162	–0.4467	–0.22	+0.0078	+0.00
Romania	ROL	10118.548863	+88.9427	+0.89	+280.4610	+2.85
Russia	RUB	11.274307	–1.6562	–12.81	+3.1501	+38.77
Slovakia	SKK	40.054950	+0.0737	+0.18	+0.5946	+1.51
Spain	ESP	169.896149	–0.5915	–0.35	+0.0412	+0.02
Sweden	SEK	9.164822	+0.0104	+0.11	–0.0036	–0.04
Switzerland	CHF	1.638797	–0.0018	–0.11	–0.0315	–1.88
United Kingdom	GBP	0.678685	+0.0000	+0.00	–0.0022	–0.32
ECU	ECU	1.013781	+0.0019	+0.19	+0.0010	+0.10
Americas						
Brazil	BRL	1.333541	+0.0110	+0.83	+0.0284	+2.02
Canada	CAD	1.772389	–0.0026	–0.15	+0.0485	+2.87
Mexico	MXN	11.296402	+0.0243	+0.22	+0.5429	+5.05
United States	USD	1.133096	+0.0087	+0.77	+0.0202	+1.81
Pacific/Middle East/Africa						
Australia	AUD	1.980088	–0.0065	–0.33	+0.0604	+3.15
Hong Kong	HKD	8.780589	+0.0667	+0.77	+0.1581	+1.83
Japan	JPY	159.981849	–1.1103	–0.69	–0.0763	–0.05
Singapore	SGD	2.012379	+0.0126	+0.63	+0.0453	+2.30
South Africa	ZAR	7.280483	+0.0056	+0.08	+0.2525	+3.59

Source: FTSE International Ltd This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

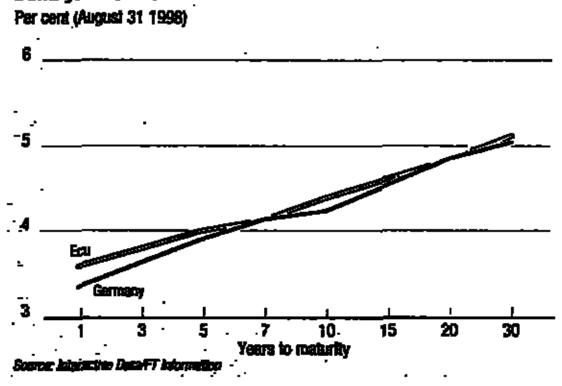
Aug 31	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0365	+0.01	+0.01	7.0391	3.64	+0.11
Belgium	20.6255	20.6249	+0.00	–0.07	20.6249	3.53	+0.00
France	3.35386	3.3513	–0.08	–0.06	3.3517	3.57	+0.04
Finland	3.04001	3.0433	+0.11	+0.03	3.0444	3.64	+0.11
Ireland	0.403676	0.3991	–0.89	–0.97	0.4019	5.64	+2.11
Italy	990.002	988.2903	–0.17	–0.38	992.7438	4.89	+1.36
Luxembourg	20.6255	20.6249	+0.00	–0.07	20.6249	3.53	+0.00
Netherlands	1.12674	1.1285	+0.16	+0.07	1.1291	3.42	–0.11
Portugal	102.505	102.427	–0.08	–0.13	102.6454	4.17	+0.64
Spain	85.0722	84.9249	–0.17	–0.25	85.1429	4.3	+0.77
Germany	1		+0.00	+0.00		3.53	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (August 31 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

Aug 31	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	+0.02	+0.12	+0.24	+0.20	+0.37	+0.20
Belgium	+0.03	+0.01	+0.15	+0.14	+0.19	+0.16
Finland	+0.03	+0.23	+0.31	+0.30	–0.15	–0.42
France	–0.07	–0.10	–0.06	–0.05	–0.01	–0.07
Germany	–0.27	–0.10	+0.01	–0.16	+0.01	–0.07
Ireland	+0.80	+0.14	+0.21	+0.23	+0.30	+0.55
Italy	+0.48	+0.36	+0.40	+0.36	+0.35	+0.32
Luxembourg	+0.03	+0.01	+0.15	+0.14	+0.19	+0.16
Netherlands	–0.08	+0.01	+0.06	–0.04	+0.03	–0.04
Portugal	+0.18	+0.23	+0.28	+0.25	+0.59	+0.44
Spain	+0.08	+0.18	+0.24	+0.35	+0.35	+0.38
"OUTs"						
Denmark	+0.71	+0.51	+0.60	+0.44	+0.33	+0.80
Greece	+9.13	+5.45	+5.25	+3.86	+2.82	+2.55
Sweden	+0.59	+0.62	+0.63	+0.43	+0.44	+0.17
UK	+2.50	+1.55	+1.34	+0.80	+0.44	–0.05

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Aug 31	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	109.240	4.53	+0.02	–0.31	+0.12
France (Rep of)	04/08	5.250	N/A	107.060	4.33	+0.03	–0.42	–0.08
Italy (Rep of)	05/08	5.000	AA	102.290	4.70	+0.07	–0.16	+0.29
Portugal (Rep of)	06/08	5.375	AA–	106.070	4.59	–0.01	–0.30	+0.18
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	102.730	4.19	+0.07	–0.35	+0.17
Gen Electric Cap Crp	10/04	5.500	AAA	106.600	4.25	+0.05	–0.37	+0.20
Oest Kontrollbank	04/08	5.250	AAA	104.500	4.66	+0.02	–0.22	+0.25
Cred Local de France	04/08	5.250	AA+	103.660	4.76	+0.03	–0.26	+0.35
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA–	102.329	4.11	+0.01	–0.28	+0.30
Cred Foncier France	03/04	8.375	A	117.728	4.66	+0.02	–0.42	+0.61
Euro Inv Bank	04/04	5.250	AAA	105.960	4.04	+0.01	–0.37	–0.01
ABN Amro Hldg. NV	04/07	6.375	AA–	110.905	4.80	+0.03	–0.32	+0.47

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

EUROZONE CREDIT SPREADS vs ECU

Aug 31	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.25	+0.04	+0.00
France Telcom	AA+	11/06	6.250	FRF	+0.18	+0.17	+0.12
Halifax	AA	07/07	5.625	DEM	+0.18	+0.17	+0.17
Ing Bank NV	AA–	01/08	5.500	NLG	+0.18	+0.18	+0.15
Bayer Hypo W Bk	AA–	02/02	6.750	ITL	+0.43	+0.33	+0.26
Cred Foncier	A	02/03	7.250	DEM	+0.52	+0.38	+0.31
Thomson-Brandt Int	A–	03/04	6.375	FRF	+0.42	+0.37	+0.35
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.33	+0.28	+0.32
Bank of China	BBB	07/99	7.125	DEM	+5.93	+3.14	+0.63
Natl Bk of Hungary	BBB–	06/01	9.000	ATS	+1.14	+0.95	+0.57
Korea Dev Bank	BB+	11/02	5.625	FRF	+10.10	+7.62	+5.75
Argentina	BB	04/08	8.125	XEU	+6.48	+4.98	+3.19

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES	[illegible]				
AUTOMOBILES	[illegible]				
BANKS RETAIL	[illegible]				
BREWERIES, PUBS & RESTAURANTS	[illegible]				
BUILDING MATERIALS & MERCHANTS	[illegible]				
CHEMICALS	[illegible]				
CONSTRUCTION	[illegible]				
DISTRIBUTORS	[illegible]				
DIVERSIFIED INDUSTRIALS	[illegible]				
ELECTRICITY	[illegible]				
ELECTRONIC & ELECTRICAL EQPT.	[illegible]				
ENGINEERING	[illegible]				
EXTRACTIVE INDUSTRIES	[illegible]				
FOOD PRODUCERS	[illegible]				
GAS DISTRIBUTION	[illegible]				
HEALTH CARE	[illegible]				
HOUSEHOLD GOODS & TEXTILES	[illegible]				
INFORMATION TECHNOLOGY	[illegible]				
INSURANCE	[illegible]				
INVESTMENT COMPANIES	[illegible]				
LEISURE & HOTELS	[illegible]				
LIFE INSURANCE	[illegible]				
MEDIA	[illegible]				
OIL, EXPLORATION & PRODUCTION	[illegible]				
OIL, INTEGRATED	[illegible]				
OTHER FINANCIAL	[illegible]				
PAPER PACKAGING & PRINTING	[illegible]				
PHARMACEUTICALS	[illegible]				
PROPERTY	[illegible]				
RETAILERS, FOOD	[illegible]				
RETAILERS, GENERAL	[illegible]				
SUPPORT SERVICES	[illegible]				
TELECOMMUNICATIONS	[illegible]				
TOBACCO	[illegible]				
TRANSPORT	[illegible]				
WATER	[illegible]				

Notes [illegible]

Texas cattle men hit by cheap imports

CROSSWORD

Investors take stock of their positions

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

European prices fell or were unchanged yesterday as traders and investors took stock of their positions in the absence of market moving developments – principally in Russia, the main market motor in the past fortnight.

However, US Treasury prices were higher by midday as stocks sagged on continued world-wide nervousness.

Analysts said there was no sign that bond yields had reached lows, in spite of last week's successive record-breaking levels. In Germany, bund analysts predicted that the yield on the benchmark bund contract could slip as low as 4 per cent.

"It's still a 'safe haven' flow environment but the bond markets have seen a day of consolidation. It was really quite quiet by recent standards," said Padhraic Garvey, bond analyst at ABN Amro in Amsterdam.

The rejection by the Russian Duma of Victor Chernomyrdin as prime minister set the scene for further jitters over Russia's political future. That is likely to buoy bond prices, analysts said.

European stocks traded lower in nervous trading and in New York, the Dow Jones Industrial Average was knocked below 8,000 early in the session.

Mr Chernomyrdin told the Duma that the recent debt moratorium had been a mistake, along with the de facto devaluation of the rouble.

Some uncertainty remains over the fate of Russia's long-awaited forced swap of short-term Treasury bills (GKOs), in spite of an announcement on Friday that investors have three weeks in which to decide how they want to exchange their paper for longer-dated debt.

US TREASURIES had pushed modestly higher by midday on signs of economic slowing and as the US equity market continued to suffer substantial losses.

By early afternoon the benchmark 30-year bond was up ⅛ to 102⅝, sending the yield lower to 5.330 per cent.

Among shorter-term issues 10-year notes were up 1/32 to 104 5/32, yielding 5.056 per cent, while two-year notes had climbed 1/32 to 100 7/32, yielding 4.892 per cent.

Overseas markets continued to be the main focus for investors. Bonds were mixed early in the session as the stock market attempted a rally. However, sentiment turned negative soon after, with the Dow Jones Industrial Average erasing its entire gain for the year by midday.

In the day's economic news, sales of houses were reported by the US Commerce Department to have fallen in July. New homes sales fell 1.6 per cent to an annual rate of 886,000. May and June figures were also revised downward.

Meanwhile, the National Association of Purchasing Management index of the Chicago region was reported to have dropped to 49.3, following a July reading of 57.6. This was the largest decline since 1985, although the prices paid component rose.

GERMAN BUNDS ended the day down, but off their lows, as equity markets slipped. The focus was still on Russia, but safe-haven flows into the German bond market were subdued as investors awaited firm developments.

The September 10-year bund future settled unchanged at 113.80 in thin volume of 171,000 contracts traded in Frankfurt.

Thomas Knabel, head of bond sales at BHF-Bank in Frankfurt, said investors expected the yield on the benchmark cash bund to fall still further.

"The trend is still there. Most domestic investors are still overweight and expecting 4 per cent [yield]," said Mr Knabel.

The UK government bond market was closed yesterday for a bank holiday.

IPMA pans withholding tax proposal

By Vincent Boland

A European Union proposal to impose withholding tax on interest income will cause serious disruption to Europe's capital markets and drive some business outside the EU, according to a leading trade body.

The International Primary Market Association, which represents underwriters of debt and equity securities, claims the EU proposal, published in draft form in May and now with the Council of Ministers, could drive much of the booming eurobond market outside the EU and increase administrative costs by 20 per cent.

The EU is proposing to introduce a 20 per cent withholding tax on interest income, including interest earned on bank deposits and eurobond holdings. Almost all eurobond issues are currently structured so that interest is paid without any tax being deducted.

Aware that the tax would meet stiff opposition, the EU also proposes an alternative arrangement whereby countries would inform other European tax authorities about interest payments to EU citizens in their jurisdictions, with the information being supplied by banks holding investments on behalf of clients.

In 1989, the UK and Luxembourg, the principal European centres of the eurobond markets, managed to quash a similar move to impose a 15 per cent withholding tax on eurobond interest. The UK has said it would also oppose the new measure but would be willing to consider information sharing.

The eurobond industry, dominated by London-based banks, is leading the opposition to the withholding tax, which is part of the EU's drive for tax harmonisation across the Union. The EU has asked member states to present reports to the council of ministers on the impact of the withholding tax proposal on their domestic financial markets.

IPMA says the proposal is "deeply flawed" and badly timed because of the imminence of European monetary union. In a paper published last week, it claimed the move would affect some $100bn of existing eurobond issues, forcing issuers to pay the tax themselves or redeem the bonds ahead of schedule.

"If the tax is introduced, issuers of 5 to 7 per cent of bonds will have to pay the tax themselves," said Clifford Dammers, IPMA secretary general.

The organisation said the tax would drive a large swathe of the eurobond business to New York or Switzerland, with the loss of more than 11,000 jobs in the EU's financial services centres.

It warned of "a tidal wave of litigation" between issuers and investors because of disputes over the implementation of the withholding tax.

IPMA estimated that some $1,000bn of eurobonds will be issued in 1998, about 75 per cent of which are originated and executed in London. There are already $3,250bn of outstanding bonds, about half of them from EU issuers, and some 10 per cent of outstanding bonds are held by retail investors.

Widening swap spreads highlight flight to quality

As eurobond and US corporate bond prices have fallen investors have sought the safest havens for their money, says Edward Luce

One of the most tangible barometers of the flight to quality over the past fortnight has been the movement in swap spreads in the leading currency markets.

Led by the US dollar and sterling, spreads in the swap market between fixed-rate and floating-rate paper have widened, in some cases to eight-year highs.

Under normal market conditions, the swap spread between, say, the 10-year US Treasury bond and 10-year dollar floating-rate paper should be about 30 or 40 basis points.

Owing to lower volatility in the German market, the spread between bunds and floating-rate D-Mark 10-year paper would normally be about 20 basis points. In other words, 10-year floating-rate bonds would normally yield 20 basis points more than 10-year fixed-rate German government bonds.

In the past few days, these spreads have widened dramatically, with the swap spread in 10-year D-Marks hitting 59 basis points and a massive 85 basis points, at one stage, in US dollars (fractionally below its record high). Five-year sterling spreads, at one point, widened beyond 100 basis points.

What has caused this precipitous widening? And what effects will it have on borrowers? The most obvious reason for the widening between fixed and floating-rate paper is a leap in investor demand for high-quality assets.

As bond prices plummet in the eurobond and US corporate bond market (in reaction to the melt-down in emerging market assets), investors have sought the safest havens for their money.

The most popular instruments are 30-year US Treasury bonds and 10-year German government bonds, although other triple-A rated sovereign bonds have also been targeted by jittery fund managers.

As a result, the prices of US and German government bonds have risen steeply and the yields have fallen correspondingly sharply. The entire German government bond yield curve – covering all its maturities – has touched record lows in the past few weeks.

In contrast, investors have spurned floating-rate cash, thus pushing the swap spread ever wider.

"The main reason for the wider swap spread is that floating-rate credit is essentially bank credit," said Brian Mooyardt, head of a bond analytics consultancy in London. "Investors are abandoning credit."

'All but the best triple-A borrowers are shut out of the bond markets in these conditions. But even the triple-A borrowers must pay up to attract the investor'

Floating-rate paper, in other words, is rated AA at best (only Rabobank, the Dutch bank has an AAA credit rating, Deutsche Bank having been downgraded last week).

Given the extent of stock market anxiety about western banking exposure to Russian and Asian borrowers, floating-rate money is bound to suffer accordingly.

Second, bond investors are increasingly nervous about the threat of global deflation. Given the growing magnitude of the Russian melt-down, few can rule out a global recession.

The balance of expectations, therefore, has shifted from an increase in US Federal Reserve interest rates over the next few months to a cut. Holding fixed-rate assets is a natural hedge against lower interest rates.

The upshot is the effective closure of the primary bond markets.

"All but the best triple-A borrowers are shut out of the bond markets in these conditions," said Michele Faissola, head of European swaps and options for Deutsche Bank. "But even the triple-A borrowers must pay up to attract the investor."

Both Fannie Mae and Federal Home Loan Banks recognised the new reality last week with 10-year bond offerings priced to yield spreads much in excess of what they would normally pay. The European Investment Bank is also expected to come to the market in dollars over the next few days.

To some extent though, the Fannie Maes of the bond market are protected by the widening of the swap spread. Because most of Fannie Mae's assets are floating-rate, it swaps all its fixed-rate bond offerings into floating paper immediately after gathering the proceeds. The upshot is that Fannie Mae is achieving a broadly similar rate of Libor (or sub-Libor) funding to what it achieves in normal market conditions.

For borrowers rated AA or below, there are no such consolations: credit has suddenly become a dirty word. No matter how wide the swap spread, few borrowers will be able to reach the market in the first place.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 31	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.6500	5.69	−0.24	+0.38	+0.55	+0.74
	08/08	8.750	121.0400	5.92	−0.18	+0.36	+0.40	−0.82
Austria	07/00	5.875	103.7800	3.73	−0.01	−0.04	−0.36	−0.47
	01/08	5.000	103.4300	4.54	+0.06	+0.01	−0.25	−1.19
Belgium	01/00	4.000	100.4100	3.68	−	+0.04	−0.31	−0.34
	03/08	5.750	109.2400	4.53	+0.02	−0.02	−0.31	−1.27
Canada	03/00	5.000	98.9200	5.75	+0.02	+0.44	+0.48	+1.51
	06/08	6.000	102.1900	5.70	−	+0.14	+0.23	−0.29
Denmark	11/00	9.000	109.2500	4.46	−0.06	+0.26	+0.06	−0.14
	11/07	7.000	115.6800	4.84	−	+0.12	−0.09	−1.46
Finland	01/99	11.000	102.6270	3.29	−0.05	−0.02	−0.32	−0.64
	04/08	6.000	109.8670	4.70	+0.10	+0.18	−0.12	−1.27
France	01/00	4.000	100.4900	3.61	+0.01	−0.04	−0.30	−0.45
	04/05	7.500	119.6600	4.05	+0.02	−0.08	−0.44	−1.15
	04/08	5.250	107.0600	4.33	+0.03	−0.08	−0.42	−1.27
	04/29	5.500	106.6700	5.06	+0.03	−0.03	−0.25	−1.27
Germany	03/00	4.000	100.9300	3.35	−0.01	−0.27	−0.54	−0.54
	10/05	6.500	114.2500	4.14	+0.02	−0.07	−0.44	−1.16
	01/08	5.250	107.7900	4.22	+0.03	−0.06	−0.43	−1.46
	01/28	5.625	108.8300	5.04	+0.05	−0.03	−0.23	−1.35
Ireland	10/01	6.500	106.3200	4.29	−	+0.04	−0.31	−1.55
	08/08	6.000	110.6000	4.65	+0.06	−0.01	−0.28	−1.72
Italy	04/01	4.500	100.8200	4.15	+0.02	+0.04	−0.23	−1.92
	05/03	4.750	101.8100	4.31	+0.01	+0.03	−0.26	−1.87
	05/08	5.000	102.3300	4.69	−	+0.03	−0.19	−1.91
	11/27	6.500	116.6700	5.38	+0.01	+0.05	−0.07	−1.83
Japan	03/00	6.400	109.2310	0.37	−0.04	−0.05	−0.13	−0.15
	06/03	4.500	117.2490	0.82	−0.03	−0.07	−0.17	−0.71
	09/05	3.000	112.8310	1.10	−0.03	−0.08	−0.20	−0.97
	03/18	2.700	112.6850	1.92	−0.03	−0.11	−0.25	−0.94
Netherlands	05/00	9.000	108.6800	3.59	−0.02	−0.08	−0.40	−0.50
	07/08	5.250	106.8400	4.38	+0.04	−0.07	−0.37	−1.27
New Zealand	02/01	8.000	103.1154	6.55	−0.18	+0.32	−0.05	−0.67
	11/06	8.000	108.6043	6.47	−0.01	+0.40	+0.25	−0.57
Norway	01/99	9.000	100.3700	7.63	−0.18	+0.28	+2.27	+3.09
	01/07	6.750	105.0500	5.96	−0.02	+0.29	+0.64	−0.08
Portugal	03/00	5.375	102.1900	3.87	+0.06	−0.05	−0.34	−1.42
	06/08	5.375	105.5600	4.65	+0.03	−0.03	−0.30	−1.73
Spain	04/00	6.750	104.5500	3.75	−0.07	−0.11	−0.38	−1.46
	01/08	6.000	109.9000	4.67	+0.01	−0.02	−0.23	−1.65
Sweden	05/00	10.250	108.2820	4.31	−0.10	−0.01	+0.02	−0.57
	05/08	6.500	112.5920	4.83	−0.06	+0.12	−0.07	−1.78
Switzerland	03/00	5.000	105.0400	1.59	−0.12	−0.35	−0.52	−0.09
	08/07	4.500	115.0500	2.96	−0.02	−0.14	−0.37	−1.00
UK	11/01	7.000	102.8303	6.01	−	−0.22	−0.52	−1.02
	12/03	6.500	104.2734	5.55	−	−0.21	−0.55	−1.52
	12/07	7.250	114.1841	5.29	−	−0.18	−0.47	−1.78
	12/28	6.000	114.0000	5.09	+0.01	−0.14	−0.32	−1.91
US	05/00	5.500	100.7898	5.01	+0.01	−0.22	−0.48	−0.95
	06/03	5.500	101.9308	5.02	−	−0.22	−0.52	−1.30
	05/08	5.625	104.0700	5.09	+0.01	−0.21	−0.41	−1.25
	11/27	6.125	109.3312	5.48	+0.04	−0.07	−0.24	−1.13
ECU	07/00	4.000	100.3400	3.80	−0.02	−0.04	−0.36	−0.75
	04/08	5.250	106.6600	4.38	+0.03	−0.06	−0.40	−1.59

London closing. *New York mid-day. Source: Interactive Data/FT Information
†Gross. Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Aug 31	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.93	+1.68	+0.87	New Zealand	6.45	+2.20	+1.39
Austria	4.61	+0.36	−0.45	Norway	5.88	+1.63	+0.82
Belgium	4.55	+0.30	−0.51	Portugal	4.66	+0.41	−0.40
Canada	5.71	+1.46	+0.65	Spain	4.76	+0.51	−0.30
Denmark	4.85	+0.60	−0.21	Sweden	4.84	+0.59	−0.22
Finland	4.71	+0.46	−0.35	Switzerland	2.76	−1.49	−2.30
France	4.36	+0.11	−0.70	UK	5.21	+0.96	+0.15
Germany	4.25	−	−0.81	US	5.06	+0.81	−
Ireland	4.64	+0.39	−0.42	ECU	4.41	+0.16	−0.65
Italy	4.77	+0.52	−0.29				
Japan	1.34	−2.91	−3.72				
Netherlands	4.37	+0.12	−0.69				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Aug 31	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	90.6201	10.27	−0.52	+2.88	+5.38
Poland	07/04	7.125	BBB−	93.1995	8.65	−0.11	+2.44	+3.70
Russia	06/07	10.000	CCC	22.1562	48.62	+48.62	+31.94	+43.59
LATIN AMERICA								
Argentina	09/27	9.750	BB	65.0000	15.13	−0.35	+5.00	+9.80
Brazil	05/27	10.125	BB−	56.5000	18.00	−0.16	+6.66	+12.67
Mexico	05/26	11.500	BB	85.0000	13.58	−0.16	+3.92	+8.27
ASIA								
China	07/06	7.750	BBB+	86.9573	10.24	−0.54	+3.34	+5.24
Philippines	10/16	8.750	BB+	71.6901	12.80	−0.52	+3.60	+7.63
Thailand	04/07	7.750	BBB−	73.4849	12.84	−0.51	+3.58	+7.91
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB−	98.9067	9.76	−0.52	+2.03	+4.83
South Africa	10/06	8.375	BB+	84.1080	11.48	−0.45	+2.89	+6.48
Turkey	09/07	10.000	B	76.1456	14.98	−0.48	+5.17	+9.95
BRADY BONDS								
Argentina	03/23	5.750	BB	60.0000	10.58	−0.15	+2.25	+5.31
Brazil	04/14	5.000	BB−	52.0000	15.67	−0.50	+5.13	+10.53
Mexico	12/19	6.250	BB	71.5000	9.36	−0.03	+1.41	+4.15
Venezuela	03/20	6.750	B+	59.3750	12.08	−0.71	+2.88	+6.85

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	108.64	108.60	−0.19	108.79	108.42	48,203	95,370
Dec	108.24	108.13	−0.18	108.24	108.00	6,970	34,826

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Sep	Calls Oct	Calls Dec	Puts Sep	Puts Oct	Puts Dec
102	6.28	5.79	5.79	-	-	0.05
103	5.28	4.79	4.85	-	-	0.11
104	4.28	3.80	3.95	-	-	0.19
105	3.28	2.84	3.11	-	0.03	0.34

Est. vol. total, Calls 3,744 Puts 3,383. Previous day's open int., Calls 58,399 Puts 68,878.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	113.76	113.80	−0.12	114.60	113.65	6849	35398
Dec	112.70	112.56	−0.18	112.82	112.54	41	3273

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	113.85	113.63	−0.02	113.85	113.31	197,187	6251,832
Dec	112.64	112.46	+0.10	112.64	112.19	48,138	268,321

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 7456 Puts 6540

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	108.25	108.17	−0.02	108.25	107.96	79,643	280,274
Dec	107.41	107.40	+0.03	107.23	107.23	11,221	63,743

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	123.45	123.00	−0.54	123.80	122.73	32687	98203
Dec	109.75	109.23	−0.52	109.94	109.11	7209	13161

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Puts Oct	Puts Nov
10900	0.61	0.80	0.38	0.57
10950	0.36	0.55	0.63	0.82
11000	0.20	0.37	0.97	1.14

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	112.68	112.67	−0.10	112.76	112.56	29,236	113,755
Dec	113.03	112.97	−0.10	113.03	112.88	223	2,258

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		105.39	+0.29			0	1005
Dec		105.62	+0.29			0	1616

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	112.36	112.29	+0.20	112.95	112.03	16757	26350
Dec	112.58	112.57	+0.21	113.29	112.32	66347	143007

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11200	1.00	1.23	1.46	0.64	0.87	1.10
11250	0.73	0.98	1.22	0.87	1.12	1.35
11300	0.54	0.77	1.00	1.18	1.41	1.64

Est. vol. total, Calls 3702 Puts 950. Previous day's open int., Calls 35677 Puts 15015

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	126–19	126–23	+0–06	126–28	126–07	754,792	447,876
Dec	126–14	126–17	+0–08	126–23	126–01	251,873	446,826
Mar	125–28	126–08	+0–06	126–12	125–28	1,882	61,278

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	135.31	135.38		135.53	135.27	4224	n/a
Dec	135.01	135.07		135.20	134.98	1945	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	−	106.46	−0.50	−	−	0	18

US CORPORATE BONDS

Aug 28	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	104.8594	5.81	−0.03	−0.33	+0.89
NY Tel	08/25	7.00	A+	100.3901	6.96	−0.02	−0.04	+1.61
CWE	05/08	8.00	BBB	112.2593	6.29	−0.02	−0.23	+1.21
FINANCIALS								
GECC	05/07	8.75	AAA	118.6513	5.97	−0.03	−0.22	+0.89
Banc One	08/02	7.25	A+	104.8394	5.84	−0.04	−0.38	+0.92
US West	01/07	7.30	BBB	105.5437	6.44	−	+0.25	+0.98
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1520	5.98	+0.01	−0.15	+1.24
Wal Mart	05/02	6.75	AA	104.3272	5.44	−0.03	−0.52	+0.52
Dayton Hud	06/21	9.70	BBB+	133.0904	6.81	+0.08	+0.04	+1.46
AGENCIES								
FHLMC	04/07	7.14	N/A	111.4201	5.46	−0.02	−0.40	+0.38
SLMA	03/00	7.50	N/A	103.2385	5.25	−0.05	−0.45	+0.33
FNMA	02/18	8.95	N/A	136.0959	5.82	−0.01	−0.24	+0.47
FFCB	06/06	8.95	N/A	121.9893	5.43	−0.03	−0.40	+0.35
HIGH YIELD								
Stone Cont	02/01	9.88	B	96.5000	0.00	−	−	−
AK Stl	12/01	9.13	BB−	100.0000	0.00	−	−	−
Pacalta	06/04	10.75	B−	94.0000	0.00	−	−	−

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	4.93
Prime rate	8½	Two month	-	Three year	4.88
Broker loan rate	7¼	Three month	4.89	Five year	4.93
Fed.funds	5 13/16	Six month	5.00	10-year	5.07
Fed.funds at intervention	-	One year	4.97	30-year	5.34

INTERNATIONAL BONDS

Aug 31	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	108.3900	4.53	+0.02	−0.26	+0.36
Spain	01/07	5.750	AA	108.3500	4.52	+0.06	−0.28	+0.35
Philip Morris	03/04	5.375	A	102.7500	4.79	−0.07	−0.22	+0.76
Finland FRN	09/02	3.629	AA	100.5649	3.30	+0.02	−0.45	−0.48
EURO FFR								
Austria	01/04	5.500	AAA	106.8700	4.05	+0.01	−0.43	+0.07
Abbey Nat	02/04	6.000	AA	108.5856	4.20	+0.02	−0.39	+0.22
Cred Foncier	02/04	9.125	A	122.1376	4.46	+0.01	−0.32	+0.48
3CIF FRN	12/01	3.633	AA−	99.8638	3.61	+0.01	−0.42	−0.13
EURO LIRA								
EIB	02/07	7.000	AAA	116.1300	4.64	+0.01	−0.22	−0.05
Abbey Nat	02/02	6.800	AA	107.7900	4.32	−	−0.29	+0.03
Walt Disney	06/00	8.625	A	107.2400	4.34	+0.02	−0.27	+0.12
EIB FRN	03/01	4.692	AAA	100.0079	4.00	+0.02	−0.21	−0.20
EURO £								
EIB	12/07	7.625	AAA	112.2272	5.87	−0.01	−0.30	+0.54
Dresdner Bk	12/07	7.750	AA−	110.3387	6.24	−0.01	−0.42	+0.91
British Gas	03/00	7.625	A+	100.9421	6.93	−0.05	−0.65	+0.69
Abbey Nat FRN	02/02	7.900	AA	100.1814	5.78	−0.01	−0.57	+0.02
EURO $								
EIB	04/07	7.250	AAA	110.3016	5.70	−0.03	−0.24	+0.87
ABN Amro	06/07	7.125	n/a	108.4400	5.88	−0.03	−0.57	+0.85
Quebec	01/07	7.000	A+	108.5124	5.71	−0.03	−0.57	+0.88
Citicorp FRN	02/04	5.750	A+	101.3651	5.16	−0.03	−0.52	+0.21
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	114.8641	6.41	−	+0.46	+0.13
Toronto	05/04	8.500	AA+	110.0143	6.35	+0.02	+0.44	+0.07
Bell Canada	07/99	10.625	A+	103.3088	6.50	+0.02	+0.69	+0.96
Deutsche B FRN	09/02	5.875	AAA	99.2425	6.09	+0.02	+0.24	−0.16
EURO YEN								
World Bank	03/02	5.250	AAA	115.9469	0.89	−0.03	−0.14	−0.02
Spain	03/02	5.750	AA	117.8243	0.86	−0.03	−0.13	−0.05
Cred Foncier	08/02	4.750	A	113.7656	1.15	−0.03	−0.14	+0.44
Italy FRN	07/99	0.727	AA	100.2595	0.09	−0.02	−0.01	−0.28

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Fri Aug 28	Day's change %	Thu Aug 27	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	119.73	0.32	119.34	2.01	7.09
2 5-15 years (20)	167.59	0.27	167.13	2.54	7.10
3 Over 15 years (5)	215.29	0.13	215.00	2.84	7.40
4 Irredeemables (4)	281.85	0.64	280.06	3.60	8.53
5 All stocks (46)	158.35	0.26	158.94	2.42	7.36
Index-linked					
6 Up to 5 years (2)	221.04	0.08	220.86	1.98	3.13
7 Over 5 years (9)	240.07	0.10	239.83	0.98	5.06
8 All stocks (11)	236.37	0.10	236.15	1.15	4.70

UK Indices

	Low coupon yield Aug 28	Low Aug 27	Low Yr. ago	Medium coupon yield Aug 28	Medium Aug 27	Medium Yr. ago	High coupon yield Aug 28	High Aug 27	High Yr. ago
5 yrs	5.63	5.71	7.00	5.70	5.78	7.06	5.70	5.78	7.12
15 yrs	5.17	5.18	7.00	5.29	5.30	7.07	5.37	5.40	7.13
20 yrs	5.15	5.15	7.00	5.27	5.28	7.07	5.36	5.39	7.13
Irred.†	5.36	5.39	7.16						

	Inflation 5% Aug 28	Aug 27	Yr. ago	Inflation 10% Aug 28	Aug 27	Yr. ago
Up to 5 yrs	2.72	2.72	3.57	2.03	2.02	2.91
Over 5 yrs	2.40	2.40	3.60	2.21	2.21	3.41

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Yr ago	High*	Low*
Govt. Secs. (UK)	108.39	108.19	107.31	107.31	107.07	96.63	108.39	93.31
Fixed Interest	147.40	147.02	146.17	146.23	145.89	125.88	147.40	115.32

 * for 1998. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 147.4 (28/08/98), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts* (Lives up to Five Years)							
Treas 15½pc '98		100⅔	−.1	935	Mr30 Se30	23.3	1308
Exch 12pc 1998		100¾	—	3,909	My20 Nv20	11.5	1259
Treas 9½pc 1999		100½	—	1,900	Jy15 Ja15	6.7	1347
Treas Flg Rate 1999		100⅛	—	5,700	8MrJeSeDe	8.6	4945
Exch 12¼pc 1999		102¾	0.1	3,050	Se26 Mr26	23.3	1284
Treas 10½pc 1999		103⅞	0.2	1,282	Nv19 My19	11.5	1288
Treas 6pc 1999		99¾	0.4	6,950	Fe10 Au10	3.8	3635
Conv 10¼pc 1999		104⅞	0.4	1,798	My22 Nv22	18.5	1242
Treas 8½pc 2000	‡	102⅞	0.5	109	Jy28 Ja28	27.7	-
Conv 9pc 2000		103⅝xd	0.5	5,358	Se3 Mr3	24.8	1244
Treas 13pc 2000		111⅞	0.5	3,171	Ja14 Jy14	3.7	1290
Treas 8pc 2000		105⅞	0.7	9,800	Je7 De7	28.5	4948
Treas Flg Rate 2001		100⅞	0.1	3,000	8DcJaApJy	7.97	-
Treas 10pc 2001		108⅞xd	0.6	4,406	Au26 Fe26	17.8	1280
Conv 9½pc 2001	‡	108¼	0.6	3	Ja12 Jy12	6.7	-
Conv 9¾pc 2001	‡	108⅝	0.6	35	Fe10 Au10	3.8	-
Treas 7pc 2001		102⅞	0.7	12,750	My6 Nv6	27.4	3031
Exch 12pc 1999-2	‡	101¾	—	105	Jy22 Ja22	13.7	-
Conv 10pc 2002	‡	113¼	0.8	21	Oc11 Ap11	6.4	-
Treas 7pc 2002		103⅞	0.7	9,000	De7 Je7	28.5	-
Five to Fifteen Years							
Conv 9½pc 2002	‡	112⅞	0.6	2	Oc14 Ja14	8.6	-
Treas 9¾pc 2002		113⅞xd	0.6	6,527	Fe27 Au27	24.8	1349
Exch 9pc 2002	‡	111⅞	0.6	83	My19 Nv19	11.5	-
Conv 9¾pc 2003	‡	115¼	0.6	11	Nv7 My7	27.4	-
Treas 8pc 2003		109⅞	0.8	8,600	Je10 De10	1.6	2010
Treas 6½pc 2003		104⅞	0.9	2,000	Je7 De7	28.5	-
Treas 13¾pc 2000-3	‡	117⅞	0.5	53	Ja25 Jy25	20.7	-
Treas 10pc 2003		116⅞	0.8	2,603	Mr8 Se8	2.9	1281
Treas 11½pc 2001-4		112⅞	0.5	1,620	Se19 Mr19	16.3	1290
Treas 10pc 2004	‡	120⅞	0.6	23	Nv18 My18	11.5	-
Funding 3½pc 1999-4		94⅞	1.0	543	Ja14 Jy14	3.7	1274
Conv 9½pc 2004		120⅞	0.8	3,412	Ap25 Oc25	17.4	1246
Treas 6¾pc 2004		105⅝	0.8	6,500	My26 Nv26	18.5	3541
Conv 9½pc 2005		121½	0.7	4,842	Oc18 Ap18	14.4	1247
Exch 10½pc 2005	‡	128⅞	0.7	23	Mr20 Se20	16.3	-
Treas 12½pc 2003-5		130⅞	0.8	2,500	My21 Nv21	18.5	1295
Treas 8½pc 2005		117⅞	0.8	10,373	Je7 De7	28.5	4946
Conv 9¾pc 2006	‡	128⅞	0.8	6	My15 Nv15	11.5	-
Treas 7½pc 2006		113⅝	0.9	11,700	Je7 De7	28.5	1148
Treas 7¾pc 2006		114⅞	0.9	4,000	Mr8 Se8	2.3	2800
Treas 8pc 2002-6		107⅞	0.6	2,050	Ap5 Oc5	30.3	1934
Treas 11¾pc 2003-7	‡	122⅞	0.8	3,150	Jy22 Ja22	13.7	1293
Treas 8½pc 2007		121⅞	0.8	7,397	Ja16 Jy16	10.7	1339
Treas 7¼pc 2007		114¼	1.0	11,000	Je7 De7	28.5	-
Treas 13½pc 2004-8	‡	137⅞	0.7	95	Se26 Mr26	23.3	-
Treas 9pc 2008		128⅞	1.0	5,621	Ap13 Oc13	1.4	1343
Treas 8pc 2009		122⅞	1.0	3,450	Mr25 Se25	16.3	1336
Treas 5¾pc 2009		104⅞	1.0	2,500	-	-	-
Treas 6¼pc 2010		108⅞	1.1	4,750	My25 Nv25	18.5	4632
Conv 9pc Ln 2011		133½	1.0	5,273	Jy12 Ja12	3.7	1345
Treas 9pc 2012		135⅞	1.1	5,360	Fe6 Au6	28.7	1701
Treas 5½pc 2008-12		103⅞	1.4	1,000	Mr10 Se10	2.9	1330
Treas 7¾pc 2012-15		122⅞	1.1	800	Jy26 Ja26	20.7	1332
Over Fifteen Years							
Treas 8pc 2013		128⅞	1.2	6,100	Mr27 Se27	23.3	2229
Treas 8pc 2015		130⅞	1.3	13,787	Je7 De7	28.5	4992
Treas 8¾pc 2017		141⅞xd	1.3	7,550	Fe25 Au25	17.8	1962
Exch 12pc 2013-17	‡	167⅞	0.8	57	Ja12 Dc12	8.6	-
Treas 8pc 2021		139⅞	1.5	16,500	Je7 De7	28.5	-
Treas 6pc 2028		114⅞	2.1	5,000	De7 Je7	1.6	-
Undated							
Consols 4pc		72¼	5.8	359	Au1 Fe1	24.7	1239
War Loan 3½pc		69⅞	2.6	1,909	Je1 De1	1.6	1362
Conv 3½pc '61 Aft		82⅞	2.0	115	Ap1 Oc1	23.3	1243
Treas 3pc '66 Aft		51⅞	2.2	56	Ap5 Oc5	30.3	1324
Consols 2½pc		46⅞	2.4	278	5JaApJyOc	29.6	1238
Treas. 2½pc		45⅞	2.5	475	Ap1 Oc1	23.3	1315
Index-Linked (b)							
2½pc '99	‡	195⅞	0.2	2	My22 Nv22	18.5	-
2½pc '01	(78.3)	200⅞	0.2	2,150	Mr24 Se24	16.3	1316
2½pc '03	(78.8)	200	0.3	2,700	My20 Nv20	11.5	1317
4⅝pc '04	(135.6)	129⅞	0.3	1,150	Ap21 Oc21	14.4	1255
2pc '06	(69.5)	220⅞	0.5	2,500	Ja19 Jy19	10.7	1314
2½pc '09	(78.8)	202⅞	0.6	2,625	My20 Nv20	11.5	1318
2½pc '11	(74.6)	214⅞	0.7	3,100	Fe23 Au23	17.8	1319
2½pc '13	(89.2)	180⅞	0.9	3,750	Fe16 Au16	10.8	1320
2½pc '16	(81.6)	197⅞	1.0	3,975	Ja26 Jy26	20.7	1321
2½pc '20	(83.0)	194⅞	1.1	3,800	Ap16 Oc16	8.4	1322
2½pc '24	(97.7)	166½	1.4	3,850	Ja17 Jy17	10.7	1323
4⅛pc '30	(135.1)	164⅞	1.4	1,450	Ja16 Jy22	13.7	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for November 1997: 159.6 and for June 1998: 163.4.

Other Fixed Interest

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009		132½	—	100	Mr24 Se24	7.97	-
B'ham 11½pc 2012		149½	—	45	My15 Nv15	20.4	1897
Leeds 13½pc 2006		141½	—	40	Ap1 Oc1	18.3	3146
Liverpool 3½pc Irred		56	—	6	1ApJyOcJa	1.6	-
LCC 3pc '20 Aft		40xd	—	28	1MrJeSeDe	3.6	-
Manchester 11½pc 2007		133½	—	6	Ap25 Oc25	30.3	3276
Met. Wtr. 3pc 'B'		88xd	—	25	Mr1 Se1	3.8	3381
N'wide Anglia 3⅝pc IL 2021		185⅝	—	60	Ja30 Jy30	22.6	-
4⅛pc IL 2024		178⅞	—	50	Au23 Fe23	3.8	-

● 'Tap' stock. All UK Gilts are tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ‡ Indicative price.

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Dollar becomes casualty of turmoil

MARKETS REPORT

By Simon Kuper

At a time of global economic panic, investors are selling the currency usually considered the world's safest.

The dollar has plunged against the D-Mark and yen even though the US economy is growing strongly.

The rationale seems to be threefold. Firstly, some investors think Russia's financial crisis could spread to Latin America, the US's backyard. The Duma's vote to reject Viktor Chernomyrdin as prime minister yesterday kept the Russian fire burning.

Secondly, Russia's woes have set off a global market slump, and the US stock market, the world's biggest, fell yesterday to below its levels of the start of 1998. This suggested to some that capital might be fleeing the US – even though Treasury bond prices have jumped to record highs.

The third reason cited for selling dollars is the growing belief that the Federal Reserve might cut interest rates, as a way of warding of global recession and making it cheaper for beleaguered emerging economies to pay their dollar debts.

The notion of a Fed cut is fairly new. The latest news about the bank's bias was that it tended towards raising rates. However, on Friday sentiment in the interest rate market was changed by William Poole, member of the Fed's open market committee that votes on rates.

Mr Poole said: "If the market is correct in its judgment now, that the dangers (to the economy) are primarily on the downside and the incoming data confirm that view, the Fed will follow rates down." He said he had dropped his support of an immediate rate rise. The slump in share prices has also lent credence to the view that rates might fall.

Eurodollar futures contracts have jumped and now price in a one in three chance of a rate cut at the FOMC meeting at the end of this month. The chance of a reduction by the end of the year is put at 75 per cent. Yet most economists think the Fed will sit tight.

The dollar closed in London yesterday at DM1.764 to the D-Mark and Y141.2 to the yen, respectively 1.2 pfg and Y2.1 below its Friday closing levels. However, against the D-Mark its movements were rather more dramatic than that. It lost nearly 8 pfgs between Thursday night and yesterday morning in London, before bouncing high off support at DM1.73, its lowest level of 1998. The yen was helped by more threats from Tokyo to intervene for the currency.

Trading was thin yesterday, with London on holiday.

■ The best performing currencies yesterday were the Swiss franc, the pound, and the Australian and Canadian dollars. The Swissie remains everyone's favourite safe haven, hitting a five-month high against the strong D-Mark. The pound is a good second, bucking the fall in the dollar.

And the Australian and Canadian dollars, which had both hit all-time lows, attracted bargain-hunters. The Aussie dollar rallied nearly 2 cents against the US dollar to $0.572 in late trading yesterday. The Canadian dollar gained 1.5 cents against the US currency to C$1.564 yesterday, helped by more intervention from the Bank of Canada.

Carl Weinberg, chief economist at High Frequency Economics in New York, said the slump in these currencies prompted by the collapse in commodity prices had been overdone.

He doubted that Russia would dump its commodities in the market, as other commodity exporters fear. Many Russian commodity industries are already operating at full capacity, market analysts note.

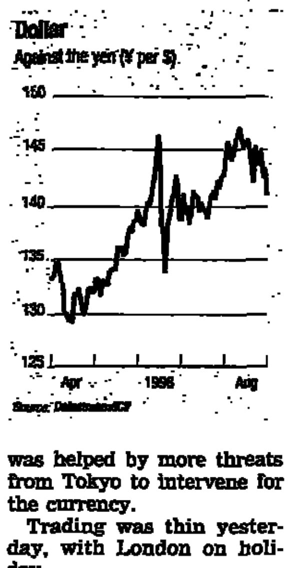
And although commodity prices had dropped 25 per cent over the last year, the Australian dollar had fallen 30 per cent against the US dollar, noted Mr Weinberg.

In the case of Canada, he remarked that its car and banking sectors were each bigger than its commodity industries. He said Canada's economy supported a stronger currency, and since its rate rise last week yields were now higher than in the US, with inflation lower.

■ The rouble rate quoted by the Emerging Markets Traders Association rose yesterday to Rs10.363 to the dollar.

Dollar

Against the yen (¥ per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Aug 31	—Latest—	– Prev. close –
£ spot	1.6750	1.6815
1 mth	1.6725	1.6788
3 mth	1.6671	1.6739
1 yr	1.6480	1.6532

■ OTHER CURRENCIES

Aug 31	£	$
Czech Rp	54.3832 - 54.4827	32.4970 - 32.5270
Hungary	375.361 - 375.753	224.230 - 224.330
Iran	5025.00 - 5022.00	3000.00 - 3000.00
Kuwait	0.5119 - 0.5124	0.3058 - 0.3059
Peru	5.0438 - 5.0501	3.0130 - 3.0150
Poland	6.2273 - 6.2478	3.7200 - 3.7300
Russia	16.2378 - 17.0850	9.7000 - 10.2000
U.A.E.	6.1483 - 6.1523	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Aug 31		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.7786	+0.008	695 - 876	20.8292	20.6162	20.7086	4.0	20.5767	3.9	20.1017	3.3	103.5
Belgium	(BFr)	60.9050	+0.0035	784 - 315	61.4790	60.3020	60.6976	4.1	60.2978	4.0	58.8356	3.4	102.9
Denmark	(DKr)	11.2471	-0.0498	421 - 521	11.2681	11.1370	11.2183	3.1	11.1642	2.9	10.9578	2.6	106.2
Finland	(FM)	8.9867	-0.0005	797 - 936	9.0800	8.9010	8.9573	3.9	8.9008	3.8	8.6853	3.4	81.8

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 31		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.4086	-0.0904	071 - 105	12.5100	12.3192	12.387	2.1	12.3463	2.0	12.2013	1.7	103.3
Belgium	(BFr)	36.3720	-0.277	670 - 770	36.5400	36.0400	36.307	2.1	36.1795	2.1	35.712	1.8	103.0
Denmark	(DKr)	6.7167	-0.0815	157 - 177	6.7400	6.6525	6.7104	1.1	6.6987	1.1	6.6512	1.0	105.5
Finland	(FM)	5.3668	-0.0415	842 - 893	5.4095	5.3186	5.3579	2.0	5.3406	1.9	5.2718	1.8	81.4

WORLD INTEREST RATES

MONEY RATES

Aug 28	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	4.99
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.45	5.44	5.44	5.46	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	4	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	4	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
95125	0.070			0.165		
95250	0.030	0.870	1.180	0.250	0.030	0.020
95375	0.015			0.380		

Est. vol. total, Calls 20932 Puts 5701. Previous day's open int., Calls 192878 Puts 143483

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

Strike Price	CALLS Sep	CALLS Oct	CALLS Nov	PUTS Sep	PUTS Oct	PUTS Nov
0.550	1.92	-	-	0.03	0.14	0.24
0.555	1.47	-	-	0.07	0.24	0.35
0.560	1.07	1.41	-	0.12	0.37	0.48

Previous day's vol., Calls 14 Puts 302. Prev. day's open int., Calls 3,816 Puts 9,789

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.42	94.42	-	94.43	94.39	107,813	445,289
Dec	94.63	94.59	+0.01	94.61	94.55	132,419	429,245
Mar	94.75	94.75	+0.01	94.77	94.70	183,961	436,158

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	95.14	95.15	+0.01	95.17	95.13	301	3,501
Dec	95.44	95.49	+0.01	95.50	95.44	232	702
Mar	-	95.58	-	-	-	3	48

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Sep	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Sep	PUTS Oct	PUTS Nov	PUTS Dec
96625	0.095				0.120			
96750	0	0.010	0.020	0.030	0.240	0.360	0.370	0.380
96875	0				0.365			
97000	0	0	0.005	0.010	0.490	0.600	0.605	0.610

Est. vol. total, Calls 25320 Puts 15491. Previous day's open int., Calls 419958 Puts 457875

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
98500	0.025	0.050	0.100	0.125	0.230	0.320
98625	0.010			0.235		

Est. vol. total, Calls 215 Puts 210 Previous day's open int., Calls 25580 Puts 6894

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

Prices for dealing August 28

Jupiter Asset Management (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda 001 441 292 2790

Newport Investment Management

Orion Fund Limited
6 Front St., Hamilton, HM11, Bermuda HM 11441 292 6370
Orion Aug 13 631.90

BERMUDA (REGULATED)(**)

Royal Bk of Canada O/S Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021
Global Funds

Latest Fund Prices 24hr service 01481 716043

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 248, St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 208, St Peter Port, Guernsey 01481 710851

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

Aberdeen Prolific International Fund Plc

BT Fund Managers (Ireland) Ltd (z)

Bank of Cyprus Group

Morgan Grenfell Investment Funds Ltd - Contd.

Citizens Investment Trust Mngt Company
CITC Select Fund Plc

CoreStates Fund Management (Ireland) Ltd
CoreFund Sterling Cash £1.00 — 7.72

DMG International Fund

Calpine Fund

Cazenove International Fund Plc

Chemical Ireland Fund Administrators Ltd

CIH Investment Fund (Ireland)
CIH Korea Equity 52.58 -0.17

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Royal Bank of Scotland International Ltd

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FT MANAGED FUNDS SERVICE

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Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

Foreign & Colonial Emerging Markets Ltd (u)

Mercury Asset Management - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Finsbury International Ltd

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Professional Investment Consultants

Royal & Sun Alliance Intl Financial Srvs

Royal Scandia Life Assurance Ltd

Asia Debt Management Hong Kong Ltd

Asia Pacific Securities Corp Ltd

Asian Convertibles & Income Fd (Cayman)

Atlantico Investment Ltd

Atlantic Investment Management, Inc

Atlantis Fund Management (Guernsey) Ltd

Atlas Real Estate Hedge Fund Limited

Aurum Funds

BEA Associates

BNP

Julius Baer Bank & Trust Co Ltd

Bahia Fund

Banca Reig. S.A. (Principality of Andorra)

Banco do Brasil–BB Fund

Daiwa Intl Capital Management (H.K.) Ltd

Genesis Fund Managers Ltd

Indocam Asia

Magnum Funds - Contd.

PRS International

Societe Generale Group

OTHER OFFSHORE FUNDS

AXA Asset Management

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Aug 31 / Sch)

BELGIUM/LUXEMBOURG (Aug 31 / Frs.)

CZECH REP (Aug 31 / Koruna)

DENMARK (Aug 31 / Kr)

FINLAND (Aug 31 / Mks)

FRANCE (Aug 31 / Frs.)

GERMANY (Aug 31 / Dm.)

GREECE (Aug 31 / Drachma)

ITALY (Aug 31 / Lire)

NETHERLANDS (Aug 31 / Fls.)

NORWAY (Aug 31 / Kroner)

POLAND (Aug 31 / Zloty)

		+/-	High	Low	Yld	P/E
BkHldy	41	-2.40	75	39.70	3.4	4.8
BkPkao	51	-1.50	84	51	–	–
Elbuild	31	-2.30	54.50	30	0.7	39.7
Exbud	29.90	+1.10	49	28.40	–	17.5
Mostal	17.10	-.49	34.10	17.10	–	11.7
WBK	22.80	+1.10	33.50	17.60	1.6	13.3
Wilczek	11.70	–	20.50	11.70	–	4.4
Zywiec	360xd	–	495	229.50	0.7	28.6

PORTUGAL (Aug 31 / Escudo)

SPAIN (Aug 31 / Pts.)

SWEDEN (Aug 31 / Kronor)

SWITZERLAND (Aug 31 / Frs.)

TURKEY (Aug 31 / Tk. Lira)

PACIFIC

JAPAN (Aug 31 / Yen)

AUSTRALIA (Aug 31 / Aust$)

HONG KONG (Aug 31 / H.K.$)

INDONESIA (Aug 31 / Rupiah)

MALAYSIA (Aug 28 / MYR)

NEW ZEALAND (Aug 31 / NZ $)

SINGAPORE (Aug 31 / S$)

SOUTH KOREA (Aug 31 / Won)

TAIWAN (Aug 31 / TW $)

THAILAND (Aug 31 / Baht)

AFRICA

SOUTH AFRICA (Aug 31 / Rand)

AMERICAS

CANADA

TORONTO (Aug 31 / Can $) 2:30 pm

MONTREAL (Aug 31 / Can $) 2:30 pm

MEXICO (Aug 31 / Peso) 12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY AUGUST 28 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY AUGUST 27 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	164.27	0.2	146.57	148.77	151.71	193.04	-1.5	3.89	163.86	147.53	147.79	153.98	195.93	238.24	163.86	227.56
Austria (22)	189.25	3.6	168.86	171.39	174.78	174.67	1.9	1.94	182.61	164.42	164.71	171.61	171.51	253.73	181.60	195.48
Belgium (22)	354.15	-0.8	315.98	320.73	327.07	320.06	-2.3	2.14	356.32	320.82	321.38	334.85	327.67	398.52	234.33	235.59
Brazil (26)	140.38	1.1	125.25	127.13	129.65	303.93	1.2	3.80	138.86	125.03	125.25	130.49	300.38	308.59	138.86	271.50
Canada (119)	173.30	0.1	154.62	156.95	160.05	198.10	-0.1	2.06	173.17	155.92	156.19	162.74	198.19	248.78	173.17	212.88
Denmark (34)	457.50	-0.6	408.19	414.32	422.51	423.01	-1.8	1.53	460.23	414.38	415.11	432.50	430.86	537.33	375.32	390.35
Finland (28)	399.12	-1.2	356.10	361.45	368.60	453.01	-2.9	2.03	403.91	363.67	364.31	379.58	466.65	506.46	267.59	281.94
France (78)	287.95	0.7	256.91	260.77	265.93	269.00	-1.1	2.34	285.97	257.48	257.93	268.74	271.86	345.18	217.48	222.30
Germany (56)	262.13	0.4	233.88	237.39	242.09	242.09	-1.3	1.32	261.05	235.04	235.45	245.32	245.32	325.61	204.89	219.13
Greece (37)	248.19	-2.5	221.44	224.77	229.21	542.15	-5.2	1.74	254.69	229.32	229.72	239.35	571.95	333.20	248.19	–
Hong Kong, China (66)	222.13	-2.3	198.19	201.17	205.14	221.01	-2.3	7.02	227.43	204.77	205.13	213.73	226.28	527.00	196.64	517.63
Indonesia (26)	27.70	-5.4	24.71	25.08	25.58	190.31	-5.0	3.44	29.28	26.36	26.41	27.51	200.26	174.57	23.58	146.62
Ireland (16)	432.01	-2.1	385.45	391.24	398.97	430.79	-3.8	2.19	441.36	397.39	398.09	414.77	447.95	580.44	359.60	369.77
Italy (54)	151.23	-1.2	134.93	136.96	139.66	198.26	-2.8	1.48	153.09	137.84	138.08	143.88	204.06	184.49	98.07	98.07
Japan (480)	78.40	-3.1	69.95	71.00	72.41	71.00	-2.7	1.11	80.93	72.87	73.00	76.05	73.00	125.65	78.40	125.65
Malaysia (108)	77.65	-3.1	69.28	70.32	71.71	125.61	-3.3	4.97	80.12	72.14	72.26	75.29	129.84	364.86	77.65	325.09
Mexico (29)	911.31	2.1	813.08	825.31	841.62	9968.73	3.0	2.73	892.77	803.82	805.24	838.97	9702.47	1901.98	892.77	1713.93
Netherlands (27)	459.51	-0.2	409.98	416.14	424.37	420.29	-1.9	2.13	460.23	414.38	415.11	432.50	428.20	582.38	385.56	391.15
New Zealand (14)	51.56	-1.1	46.00	46.69	47.61	55.53	-3.5	5.53	52.11	46.92	47.00	48.97	57.58	95.87	51.56	88.14
Norway (38)	217.89	3.0	194.23	197.15	201.04	235.25	-2.1	2.66	211.31	190.26	190.60	198.58	240.34	374.64	211.31	321.83
Philippines (22)	46.35	-7.2	41.35	41.98	42.81	102.10	-5.9	1.60	49.93	44.96	45.04	46.92	108.49	115.62	46.35	110.41
Portugal (18)	236.41	0.3	210.93	214.10	218.33	295.19	-1.2	1.10	235.61	212.14	212.51	221.41	298.72	299.39	225.61	–
Singapore (41)	114.06	-3.7	101.77	103.29	105.34	93.48	-3.2	3.23	118.46	106.66	106.85	111.32	96.54	331.17	114.06	309.64
South Africa (40)	151.55	-0.5	135.22	137.25	139.96	214.32	-2.3	4.17	152.25	137.08	137.32	143.07	219.46	346.20	151.55	340.25
Spain (31)	317.44	-1.0	283.22	287.48	293.16	364.21	-2.3	2.09	320.50	288.57	289.08	301.19	372.65	417.73	236.28	243.92
Sweden (49)	485.99	1.0	433.61	440.13	448.83	585.75	-1.6	2.00	481.26	433.31	434.08	452.26	595.17	628.19	439.98	482.61
Switzerland (28)	369.98	1.8	330.10	335.06	341.69	334.68	-0.7	1.24	363.52	327.30	327.88	341.62	337.17	439.48	285.85	286.39
Thailand (37)	8.74	-6.5	7.80	7.91	8.07	14.29	-6.0	6.60	9.35	8.42	8.43	8.79	15.20	45.52	8.74	40.85
United Kingdom (210)	340.20	-1.3	303.53	308.10	314.19	303.53	-2.2	3.27	344.64	310.31	310.85	323.88	310.31	401.84	303.41	308.13
USA (625)	419.18	-1.6	374.00	379.62	387.12	419.18	-1.6	1.55	425.76	383.34	384.02	400.10	425.76	485.88	358.31	367.61
Americas (799)	373.14	-1.5	332.92	337.93	344.61	316.76	-1.5	1.59	378.68	340.94	341.54	355.85	321.45	437.03	326.79	336.06
Europe (748)	319.79	-0.3	285.32	289.61	295.34	300.79	-1.8	2.26	320.61	288.67	289.18	301.30	306.31	388.24	265.25	267.23
Eurobloc (352)	92.37	-0.1	82.41	83.65	85.30	92.32	-1.7	1.85	92.42	83.21	83.36	86.85	93.95	113.28	92.37	–
Nordic (149)	435.14	0.4	388.24	394.08	401.86	452.96	-1.9	1.97	433.38	390.21	390.89	407.27	461.84	555.97	388.51	413.14
Pacific Basin (884)	83.29	-2.8	74.31	75.43	76.92	76.02	-2.6	1.93	85.66	77.13	77.27	80.50	78.07	142.11	83.29	141.22
Euro-Pacific (1612)	181.88	-0.9	162.27	164.71	167.97	160.81	-2.0	2.18	183.57	165.28	165.58	172.51	164.13	220.19	172.03	193.82
North America (744)	402.63	-1.5	359.23	364.63	371.84	404.05	-1.5	1.57	408.72	368.00	368.65	384.10	410.19	469.20	349.08	358.03
Europe Ex. UK (538)	298.79	0.3	266.59	270.59	275.94	290.11	-1.6	1.77	298.02	268.33	268.80	280.07	294.88	368.32	236.79	239.38
Europe Ex. Eurobloc (396)	87.46	-0.5	78.03	79.21	80.77	87.71	-1.9	2.69	87.87	79.11	79.25	82.57	89.39	103.93	87.46	–
Europe Ex. UK Ex. Eurobloc (186)	89.13	1.3	79.52	80.72	82.31	89.47	-1.3	1.51	88.01	79.24	79.38	82.70	90.58	109.21	88.01	–
Pacific Ex. Japan (384)	133.60	-1.4	119.20	120.99	123.39	145.73	-2.2	5.16	135.48	121.98	122.19	127.31	148.98	287.15	133.44	277.70
World Ex. Eurobloc (2099)	87.33	-1.4	77.92	79.09	80.65	88.82	-1.7	1.36	88.62	79.79	79.93	83.28	90.36	103.16	87.33	–
World Ex. US (1826)	181.25	-0.8	161.72	164.15	167.39	164.79	-1.9	2.20	182.81	164.59	164.88	171.79	167.97	221.91	175.30	197.97
World Ex. UK (2241)	250.21	-1.2	223.24	226.60	231.08	231.93	-1.6	1.69	253.27	228.04	228.44	238.01	235.83	298.02	234.24	246.86
World Ex. Japan (1971)	346.85	-1.0	309.46	314.11	320.32	342.48	-1.6	1.94	350.42	315.51	316.06	329.30	348.06	411.23	309.33	316.61
The World Index (2451)	257.87	-1.2	230.08	233.53	238.15	238.48	-1.7	1.86	261.05	235.04	235.46	245.32	242.82	306.56	241.30	252.12

 CONSTITUENT CHANGE WITH EFFECT 31/8/98: Deletion: [illegible] Investment Limited (South Africa). CONSTITUENT CHANGE WITH EFFECT 3/9/98: Name change: Bayerische Vereinsbank AG to Bayerische Hypo-und Vereinsbank AG (Germany); Deletion: Bayerische Hypotheken-und Wechsel-Bank AG (Germany). Latest prices were unavailable for this edition.

Emerging markets: IFC investable indices

Dollar terms

Aug 28 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	668.92	+2.8	-40.0
Brazil	287.28	+1.3	-40.5
Chile	400.24	-0.3	-37.7
Colombia[2]	404.08	-1.0	-51.0
Mexico	403.93	+1.9	-48.7
Peru[2]	143.06	-0.2	-35.4
Venezuela[3]	287.59	-2.6	-70.8
East Asia			
China[4]	21.31	-5.6	-81.5
India[7]	81.95	-2.4	-25.7
Indonesia[4]	13.93	-4.8	-58.6
Korea[5]	24.97	-3.1	+3.9
Malaysia	42.81	-2.6	-53.0
Pakistan[8]	97.53	-0.1	-60.7
Philippines	65.66	-6.6	-41.8
Sri Lanka[10]	66.12	-3.8	-43.2
Taiwan, China[6]	104.38	-1.3	-26.0
Thailand	32.39	-5.1	-31.1
Europe			
Czech Rep	41.74	-4.1	-23.7
Greece	443.75	-2.3	+37.0
Hungary[11]	204.25	-3.7	-35.1
Poland[12]	461.06	-10.1	-22.7
Portugal	265.55	+0.3	+25.8
Russia	22.96	+14.1	-84.6
Slovakia	59.40	-0.5	-40.1
Turkey[14]	163.19	+3.7	-47.7
Mideast/Africa			
Egypt	64.22	-0.6	-31.1
Israel	109.50	-1.9	-10.9
Jordan	237.22		+12.8
Morocco	178.00	+1.8	+36.6
S Africa[15]	103.44	-1.4	-42.5
Zimbabwe[16]	130.78	-7.9	-48.0
Regions			
Composite	153.81	-0.5	-37.5
Latin America	380.32	+1.2	-43.9
Asia	70.04	-2.6	-35.0
EMEA	100.63	-0.6	-31.9
Europe	129.42	-0.0	-31.3
Eastn Europe	49.70	-1.1	-54.6
ME & Africa	48.38	-1.1	-32.4

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

2:30 pm August 31

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev
110½	90⅜	Xerox	1.44	1.6	78	15128	93¼	89	91	-3
68	45½	Xtra Corp			16	237	55	53	53	[illegible]
26	22½	Yankee Egy	1.38	5.8	19	18	24	23¾	23	[illegible]
52¼	34½	York Int	0.48	1.4	29	1914	35	34	34	[illegible]
24	9	Zapata	0.28	2.4	3	3448	12½	11¾	11¾	[illegible]
30½	24	Zenith Nat	1.00	4.2	14	54	24	d23	23	[illegible]
6	5	Zenix Inc x	0.70	12.1		451	6	5¾	5¾	[illegible]
14	10	ZweigFdx	1.24	13.3		1257	10½	d9	9	-1
9	8	Zweig Tot	0.84	10.1		899	8½	d8¼	8	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-New yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 28	Aug 27	Aug 26	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8051.68	8165.99	8523.35	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.03	105.16	105.18	105.49 (15/1)	104.42 (11/5)	105.49 (15/1/98)	54.99 (1/10/81)
Transport	2827.84	2830.76	2945.34	3686.02 (16/4)	2827.84 (28/8)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	283.74	281.38	284.25	295.40 (6/7)	262.66 (9/1)	295.40 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 8301.88 (8448.89) Low 7981.27 (8092.24) (Theoretical)
Day's high 8244.52 (8510.38) Low 8011.52 (8104.18) (Actual)

Standard and Poors	Aug 28	Aug 27	Aug 26	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1027.25	1042.51	1084.19	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials♥	1222.42	1239.69	1286.24	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial♥	112.09	114.86	121.57	147.89 (14/7)	110.65 (9/1)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	512.12	518.82	539.56	608.75 (17/7)	487.47 (9/1)	608.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	602.58	608.98	633.83	753.67 (22/4)	602.58 (28/8)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1639.68	1686.41	1768.13†	2014.25 (20/7)	1503.22 (9/1)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	358.54	366.10	380.42	491.41 (21/4)	358.54 (28/8)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Aug 21	Aug 14	Aug 7	Year ago
Dow Jones Ind. Div. Yield	1.44	1.75	1.71	1.66
	Aug 26	Aug 19	Aug 12	Year ago
S & P Ind. Div. yield	1.33	1.32	1.34	1.54
S & P Ind. P/E ratio	30.83	31.03	30.57	25.75

US DATA

MARKET ACTIVITY

Volume (million)	Aug 28	Aug 27	Aug 26
NYSE	938.620	938.620	674.100
Amex	53.444	53.444	28.762
NASDAQ	910.276	863.297	690.985

NYSE	Aug 28	Aug 27	Aug 26
Issues Traded	3,535	3,547	3,525
Rises	919	381	733
Falls	2,186	1,880	2,398
Unchanged	430	306	398
New Highs	15	14	34
New Lows	637	1,018	594

NYSE TRADING ACTIVITY — Volume : 938,620,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	12,380,500	30¾	−1⅞
Travir	9,846,600	48⅛	−2⅛
AmOnLine	8,392,900	95⅛	−9⅞
GenElec	7,224,900	85¾	−⅝
Prov Cos	7,212,800	36¾	+2
ChaseM	6,989,300	56½	−1⅝
LucentTch	6,832,500	81	−1⅞
Gillte	6,267,900	41⅞	−1¼
Citicp	5,891,100	117¼	−5¼
PhMorr	5,780,600	42⅞	−½

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Zapata	12⅛	+1⅛	+10.3
TeleDa	51¾	+3⅞	+8.3
Telmex	37⅛	+2⅞	+8.1
Amrtch	48¾	+3¼	+6.9
Downs			
MCN	17½	−8	−31.4
AsiaPac	18⅞	−2⅞	−12.6
HalMarSv	10⅞	−1½	−12.6
PayleasSe	42⅞	−5⅝	−11.4

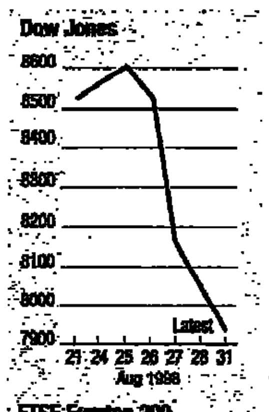
NASDAQ TRADING ACTIVITY — Volume :918,276,033

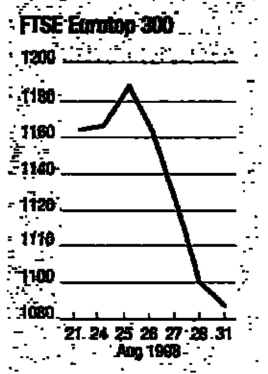
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	37,558,800	118¾	−6⅞
Intel	23,549,800	77	−2¾
CiscoSys	23,206,200	94⅞	−4⅞
WrldCm	20,402,200	46⅞	−2¾
Micsft	18,152,500	105¼	−4
Tellabs	15,925,800	49	−6⅞
Ciena Cp	13,098,100	35⅛	+4½
Tel−Swe	8,814,800	14½	−½
AppleC	8,185,200	34⅛	−3⅛
WashMut	8,029,200	31⅞	+¾

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
MAF Bnc	23¾	+3⅞	+19.5
JD Edwds	41⅛	+5½	+15.3
Ciena Cp	35⅛	+4½	+14.8
DeciLog	12⅛	+1⅞	+14.4
Downs			
Hunt JB	15⅞	−3¼	−17.7
LaborRdy	14¼	−2⅞	−16.7
Ioidonl Cp	60⅛	−11⅞	−16.3
CMG Info	50	−9⅞	−16.2





JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Sep	1031.00	1012.00	−19.00	1041.00	1007.00	194,632	353,380
Dec	1048.00	1023.50	−18.30	1049.00	1018.50	12,120	40,520
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Sep	13920.0	14070.0	+330.0	14220.0	13810.0	35,788	210,890
Dec	13870.0	13970.0	+340.0	14130.0	13750.0	2,476	51,407

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Aug	3750.0	3677.8	−17.2	3750.0	3670.0	89,236	41,208
Sep	3755.0	3660.0	−44.5	3765.0	3636.5	108,211	177,456
DAX							
Sep	4985.0	4826.0	−77.5	5003.0	4816.0	28,384	95,043
Dec	5000.0	4861.5	−68.0	5026.0	4859.0	427	4,169

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Sep	662.00	661.00	−2.00	675.00	653.50	22,905	134,907
Oct	667.50	667.50	−2.00	667.50	667.50	1	50
SOFFEX							
Sep	6835.0	6630.0	−170.0	6930.0	6612.0	7,578	28,575

WORLD MARKETS AT A GLANCE

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
Argentina	General	14617.73	14804.77	14539.02	23465.47 23/3	14539.02 27/8	4.3	12.2
Australia	All Ordinaries	2480.7	2516.9	2560.6	2881.49 16/4	2480.70 31/8	3.5	18.4
	All Mining	499.8	507.1	520.8	713.10 23/4	499.80 31/8		

Regional concerns plus a steep slide for News Corp. sent shares lower.

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
Austria	Credit Aktien	(u)	416.05	(u)	584.34 26/5	437.44 13/1	1.9	12.6
	ATX Index	1207.22	1210.63	1191.99	1628.56 26/5	1191.99 27/8		
Hungary	Bux	5252.47	5187.71	5487.96	9018.36 23/4	5187.71 28/8	na	na

Early gains of 7 per cent pared by profit taking and arbitrage between cash and futures markets.

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	2933.85	2908.10	2974.63	4280.96 21/4	2867.99 18/8	na	na
	Cdet 500	589.53	587.43	601.35	815.82 21/4	573.02 18/8		

Shares shrugged off regional declines to finish with gains on short-covering in some index stocks.

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
Indonesia	Jakarta Comp.	342.43	339.02	354.94	554.10 2/2	339.02 28/8	2.7	13.9

Foreign buying of selected bluechips pushed market higher. Telkom gained 6.8 per cent.

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	4763.17	4779.22	4838.23	6176.88 22/4	3678.27 2/1	2.1	27.3
	PSI 20	10763.79	10808.28	10936.55	14292.89 22/4	9931.84 2/1		

Shares mixed with volumes inflated by portfolio adjustments by banks and insurers on final day's trade of month.

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
Russia	RTS	65.62	(u)	66.77†	411.61 5/1	63.20 25/8	na	na

Market paralysed by the Duma's rejection of Viktor Chernomyrdin as prime minister.

Country	Index	Aug 31	Aug 28	Aug 27	1998 High	1998 Low	Yield	P/E
Singapore	SES All-S'pore	266.25	277.29	281.84	437.98 19/3	266.25 31/8	3.2	12.9
	Straits Times	856.43	895.26	910.88	1698.79 19/3	856.43 31/8		

THE NASDAQ STOCK MARKET

3:30 pm August 31

THE NASDAQ STOCK MARKET

AMEX PRICES

3:15 pm August 31

EASDAQ

Dow slides down through 8,000 level

AMERICAS

A brief initial rally was wiped out by late morning as negative sentiment sent the Dow Jones Industrial Average below the 8,000 level, *writes John Labate in New York.*

By early afternoon the Dow was off 148.30, a loss of 1.84 per cent, to 7,903.38 while the broader Standard & Poor's 500 index fell 24.87 to 1,002.27. Earlier in the session the Dow and the Nasdaq composite index had fallen below the levels at which they began the year.

In the Dow, Boeing fell $1⅞ to 32\frac{1}{16}$ and Merck $5⅞ to $122. But selected stocks gained ground, with Chevron up 1\frac{13}{16}$ to 77\frac{1}{16}$.

Despite carnage in most sectors, financial stocks were mixed, with several banking shares on the mend after several days of sharp sell-offs last week. Citicorp rose 1\frac{1}{16}$ to $118¾ and BankBoston $1½ to $37½.

As investors continued to sell leading blue-chip shares including Microsoft, Dell Computer and Cisco Systems, the technology weighted Nasdaq composite plunged 72.98 or 4.45 per cent to 1,566.70. Microsoft was off 5\frac{1}{16}$ to 100\frac{7}{16}$ while Cisco plunged 8.7 per cent to 86\frac{7}{16}$.

Investors unloaded a range of tech shares, including high-climbing internet stocks. Amazon.com tumbled 15 per cent to $90 while America Online lost 7.5 per cent to $88¼.

Northwest Airlines fell after it failed to reach a settlement with striking workers. Northwest shares plunged 7 per cent to 28\frac{1}{16}$. Other airline stocks fell back. UAL, parent of United Airlines, lost $1½ to $60½.

Tellabs fell another $2⅞ or 5.9 per cent to $46¼ after Lehman Brothers scaled back its 1999 earnings estimates. Small company shares were hit with the Russell 2,000 index off 3.1 per cent to 347.36.

TORONTO ran up against currency weakness as well as an uncertain start on Wall Street and by noon the 300 composite index was off 67.91 at 5,698.40.

Among leading industrials, Alcan Aluminium gave up 55 cents at C$30.45 and there was weakness too in golds with Barrick off 15 cents at C$20.75 and Placer Dome down 70 cents at C$13.05.

Banks were steady. Royal Bank of Canada added 25 cents at C$60.70 and Bank of Nova Scotia gained 10 cents at C$26.00.

Northern Telecom rose C$1.50 to C$25.50 ahead of an update on the progress of its merger with Bay Networks.

São Paulo falls back

SAO PAULO moved steeply lower in early trading, rapidly reversing Friday's gains as a renewed round of emerging market uncertainty and a weak start on Wall Street sparked fresh selling.

By midsession the Bovespa index was off 209 or 3.1 per cent at 6,537 in what brokers described as very moderate trading volumes.

Telebrás came off 1.9 per cent at R$86.00 and Petrobrás lost 4 per cent at R$120.00.

Eletrobrás was the morning's heaviest casualty, sliding 5.8 per cent to R$18.00.

MEXICO CITY moved lower in thin volumes with most investors forced to the sidelines by a volatile opening for US shares. The IPC index was off 25.47 at 3,128.67 at midsession.

SANTIAGO also ran up against broad pessimism. "Everybody's running scared of Russia," said one broker. At midsession, the IPSA index was down 2.05 or 3.2 per cent at 63.00.

HK plunges as government support weakens

ASIA PACIFIC

Shares in **HONG KONG** slumped to a sharply lower close as the monetary authority stepped back after its huge buying campaign over the past fortnight.

The Hang Seng index tumbled 554.70 or 7.1 per cent to finish at 7,275.04, after hitting a low of 7,233.81.

Turnover shrank to just HK$6.6bn from Friday's record HK$79bn with the government a much less aggressive buyer than in recent sessions.

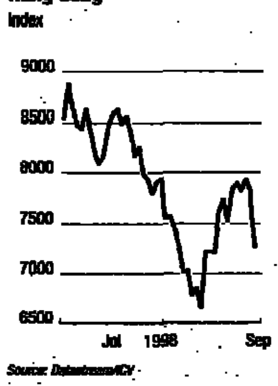
By Friday, the market had risen by 17.6 per cent since August 14 when the monetary authority began its support operations.

Analysts expect the market to continue to trend lower in the short term, although they say that it could meet stern resistance at 6,500.

Some traders caution, however, that if government intervention weakens, the blue-chip index would break below this level.

News that North Korea fired a missile into waters between the Korean peninsula and Japan received a muted response from the market. Index heavyweight HSBC Holdings dragged the market lower, falling HK$9 to HK$164.50.

Hang Seng
Index



Source: Datastream/ICV

China plays outperformed in a technical rebound after their recent sharp losses. The red-chip China-Affiliated Corporations index added 0.2 per cent while H shares gained 3.5 per cent.

TOKYO was higher on an announcement that one of Japan's biggest banks would increase its capital reserves, *writes Alexandra Harney.*

Investors saw the joint effort by several Japanese companies to help Sakura Bank's balance sheet problems as a positive sign.

The Nikkei 225 average gained 192.26 or 1.4 per cent to 14,107.89 after finishing below the 14,000 barrier last week on concerns about global financial instability.

The index moved between 13,845.15 and 14,224.18 during the day.

Trading volume was heavier than usual at about 433m shares, slightly below the frenzied pace at the end of last week. Advancing shares led decliners 876 to 295, with 144 unchanged.

Banks were broadly higher on the Sakura Bank news, which includes investments from several Japanese companies, including Mitsui, the trading company, and Toyota Motor. Sakura gained Y26 to Y248 and Toyota climbed Y60 to Y3010.

The Bank of Tokyo-Mitsubishi was up Y22 to Y998, Fuji Bank gained Y9 to Y399, and Asahi Bank improved Y32 to Y437.

But Sanwa Bank plunged Y32 to Y808, and Sumitomo bank lost Y15 to Y1,008. The Long Term Credit Bank of Japan, which has been at the centre of a political debate over a solution to the financial sector's bad loan problems, lost Y4 to Y50 in heavy trading.

Electronics companies and other exporters were mixed. Toshiba, the second largest electronics maker, gained Y4 to Y507 on early reports of a tie-up with Carrier, the US air conditioner manufacturer. Hitachi, the electronics group, was up Y21 to Y707. But Nissan Motor lost Y4 to Y376.

The Topix index of first-section stocks closed 1.8 per cent or 19.5 higher at 1,106.49. In Osaka, the OSE index improved 175 to 15,363.

TAIPEI fell to a fresh 22-month low with sentiment badly shaken by the big sell-off in Hong Kong.

The weighted index lost 85.81 or 2.8 per cent to 6,550.11 and is now 29 per cent below its 1998 peaks of early March. Taiwan Semiconductor came off T$1.50 at T$61.50. Among financials, Shin Kong Life tumbled T$3.60 to T$47.90.

SYDNEY fell 36.2 or 1.4 per cent to 2,480.7 on the All Ordinaries index, not helped by a steep decline for News Corp. The media giant ended off 78 cents at A$10.69 on arbitrage-driven selling as the group's converting preference shares were converted into ordinary stock.

Among resource sectors, GIO Australia fell 8 cents to A$5.02 and BHP 34 cents to A$12.06. Mayne Nickless shed 30 cents to A$9.08 on the news that its telecoms unit Optus has a further loss.

SEOUL saw hopes raised by expectations of government measures to help boost the sluggish economy, while sentiment was also supported by efforts by Washington and Moscow to resolve the economic turmoil in Russia. The composite index rose 5.37 or 1.8 per cent to 310.16.

SINGAPORE was badly depressed by the slide in Hong Kong, and the Straits Times index made its debut with a fall of 28.83 or 3.3 per cent to 856.43. The new index has replaced the old 30-share Straits Times Industrial index.

Russian worries give bourses a rocky ride

EUROPE

European confidence was badly dented by the continuing uncertainty over developments in Russia, where the Communist-led parliament rejected President Boris Yeltsin's choice of prime minister, as well as by Wall Street's mid-morning pull-back.

FRANKFURT closed a rocky session 2.3 per cent lower with the Xetra Dax index registering a loss of 114.52 at 4,811.28 by the close of electronic trade.

Vereinsbank lost DM9.50 to DM134.50 ahead of today's official merger with Hypo-Bank as investors registered their disappointment after the bank cautioned that it expected its risk provisions to be unchanged at DM2.5bn this year.

Viag gave up DM37.50 to DM1,118 after the company said its Bayernwerk power utility would pay a premium for the outstanding Contigas shares.

MOSCOW edged down with the market paralysed by the Duma's rejection of Viktor Chernomyrdin as prime minister. The RTS index closed 1.16 lower at 65.62.

PARIS fell 50.86 to 3,658.11 on the CAC 40 index with the expiry of the leading futures contract adding to general uncertainty. Volume was again below average.

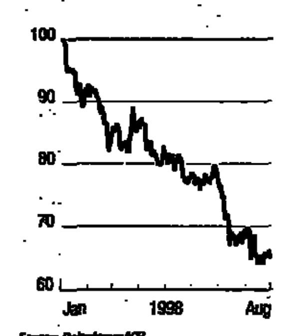
Thomson-CSF tumbled FFr10.50 to FFr193.90 and chips group STMicroelectronic shed FFr15 to FFr335. Bic was the worst performer, sliding FFr22.40 or 6.3 per cent to FFr332.60 on talk that the throw-away products group faced demotion from the CAC 40 index.

Retailers showed defensive qualities. Promodès added FFr82 at FFr3,872 and acquisition news helped supermarket leader Carrefour to close all-square at FFr3,464.

ZURICH finished another volatile, uncertain session lower with the SMI index down 107.5 or 1.6 per cent at 6,679.4. Financials remained under pressure. CS Group, which rose initially to SFr274, finished SFr8.50 lower at SFr253.50. UBSD was SFr13 lower at SFr467.

Novartis tumbled SFr55 to SFr2,249 as the pharmaceuticals and nutrician group's chief executive played down a newspaper report claiming that falsified laboratory data by a sacked researcher had caused the group more than SFr10m in damage. Daniel Vasella dismissed the report as "gross exaggeration".

Royal Dutch
Share price relative to AEX index



Source: Datastream/ICV

AMSTERDAM ended lower in spite of a strong run for market heavyweight Royal Dutch following a fresh outbreak of speculation that the oil giant was set to mirror the recent BP-Amoco deal and merge with Texaco.

Royal Dutch, which stormed ahead to Fl 93 in early trade, ended up Fl 1.50 at Fl 88.20 in 8.5m shares traded after a denial from Texaco that the two were involved in talks. The US group described the rumours as "wild speculation".

Philips fell Fl 4.50 to Fl 129.80 while the heaviest casualty was Buhrmann which lost Fl 2.30 or 4.9 per cent at Fl 45. The AEX index closed off 6.77 at 1,086.63.

Among smaller caps, TNT slipped Fl 1.90 to Fl 41.80 with solid first-half results overshadowed by the post group's plans for possible cross-border acquisitions.

Grolsch surged after the brewer's management announced it had turned down a bid from Interbrew of Belgium. The shares ended Fl 7 or 15 per cent higher at Fl 53.50 after touching a session best of Fl 55 at the opening bell.

MILAN extended its losses as Wall St pulled back and the Mibtel index finished 344 lower at 21,086.

Banks again led the retreat on worries about their exposure to emerging markets. Banca di Roma lost L191 to L3,370 and Mediobanca L1,048 to L18,907.

Against the trend, shares in Lazio were sharply higher after the Rome football team's 2-1 weekend victory over Juventus. The team's purchase of Christian Vieri from Madrid's Atletico also continued to lend support and the shares closed L217 higher at L5,604.

MADRID had a steady session with the general index dipping 6.26 to 737.05. The banks supplied most of the underpinning thanks to a round of bargain hunting.

Santander, which has shed more than a quarter in value over the past seven trading days, added Pta115 to Pta2,800. BBV rose to Pta2,085 in early trading but closed Pta35 higher at Pta1,980 after declaring an interest in taking a big minority stake in Banca Nazionale del Lavoro of Italy.

BRUSSELS saw a BFr50 fall in Tessenderlo to BFr1,850 as the chemicals company continued to suffer from a slide in PVC prices. The shares fell to an intraday low of BFr1,795, representing a near 38 per cent plunge from their record high set in June. Deceuninck Plastics Industries put on BFr150 to BFr10,400, benefiting from the lower prices for its raw materials. The Bel-20 index, which includes Tessenderlo, lost 54.05 to 3,172.

HELSINKI extended early losses, hit again by losses in companies with exposure to Russia. The Hex index fell 69.43 or 1.6 per cent to 4,318.91.

Written and edited by Michael Morgan, Jeffrey Brown and Peter Hall

SOUTH AFRICA

Shares in Johannesburg rallied modestly towards the close, paring the day's losses to 62.9 on the all share index which ended at 4,923.4.

Golds did their best to keep sentiment positive with the sector responding to a rebound for bullion with a rise of 34.4 or 4.6 per cent to 783.6.

However, financials ran into a heavy bout of selling, losing 282.1 or 3.7 per cent to 7,442.9 while industrials came off 62.2 to 5,854.6.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, August 28, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7893.32	4750.00	2673.85	3315.42
Albania	(Lek)	251.132	151.125	85.0738	105.463
Algeria	(Dinar)	98.3690	59.1900	33.3202	41.3138
Andorra	(French Fr)	9.8966	5.9555	3.3527	4.1568
	(Sp Peseta)	251.672	151.450	85.2591	105.710
Angola	(Readj Kwanza)	427282.6	257128.0	144749.7	179470.9
Antigua	(E Carib $)	4.4867	2.7000	1.5199	1.8846
Argentina	(Peso)	1.6608	0.9994	0.5626	0.6976
Armenia	(Dram)	834.830a	502.380	282.808	350.653
Aruba	(Florin)	2.9746	1.7900	1.0077	1.2494
Australia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Azerbaijan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Azores	(Port Escudo)	303.145	182.425	102.697	127.330
Bahamas	(Bahama $)	1.6618	1	0.5630	0.6980
Bahrain	(Dinar)	0.6268	0.3772	0.2123	0.2632
Balearic Is	(Sp Peseta)	251.672	151.450	85.2591	105.710
Bangladesh	(Taka)	78.2685	47.1000	26.5150	32.8750
Barbados	(Barb $)	3.3422	2.0113	1.1322	1.4038
Belarus	(Rouble)	191932.2e	115500.0	65019.1	80617.0
Belgium	(Belg Fr)	60.9015	36.6490	20.6316	25.5804
Belize	(B $)	3.3235	2.0000	1.1259	1.3960
Benin	(CFA Fr)	989.660	595.550	335.266	415.684
Bermuda	(Bermudian $)	1.6618	1	0.5630	0.6980
Bhutan	(Ngultrum)	70.6826	42.5350	23.9452	29.6887
Bolivia	(Boliviano)	9.2393	5.5600	3.1300	3.8808
Botswana	(Pula)	7.9597	4.7893	2.6961	3.3428
Brazil	(Real)	1.9546	1.1762	0.6621	0.8210
Brunei	(Brunei $)	2.9554	1.7785	1.0012	1.2414
Bulgaria	(Lev)	2938.05	1768.05	995.300	1234.07
Burkina Faso	(CFA Fr)	989.660	595.550	335.266	415.684
Burma	(Kyat)	10.3886	6.2517	3.5193	4.3636
Burundi	(Burundi Fr)	744.464	448.000	252.198	312.698
Cambodia	(Riel)	6198.33	3730.00	2099.75	2603.48
Cameroon	(CFA Fr)	989.660	595.550	335.266	415.684
Canada	(Canadian $)	2.6233	1.5786	0.8887	1.1018
Canary Is	(Sp Peseta)	251.672	151.450	85.2591	105.710
Cp. Verde	(CV Escudo)	165.653	99.6860	56.1169	69.5791
Cayman Is	(CI $)	1.3763	0.8282	0.4662	0.5781
Cent. Afr Rep	(CFA Fr)	989.660	595.550	335.266	415.684
Chad	(CFA Fr)	989.660	595.550	335.266	415.684
Chile	(Chilean Peso)	787.919	474.150	266.924	330.949
China	(Renminbi)	13.7593	8.2800	4.6612	5.7793
Colombia	(Col Peso)	2394.86	1441.05	811.242	1005.83
Comoros	(Fr)	748.100	450.188	253.427	314.224
Congo	(CFA Fr)	989.660	595.550	335.266	415.684
Congo (Dem Rep)	(Zaire)(2)	228490.7	137500.0	77403.7	95972.6
Costa Rica	(Colon)	434.843	261.198	147.037	182.310
Côte d'Ivoire	(CFA Fr)	989.660	595.550	335.266	415.684
Croatia	(Kuna)	10.7483	6.4681	3.6412	4.5146
Cuba	(Cuban Peso)(1)	38.2203	23.0000	12.9475	16.0536
Cyprus	(Cyprus £)	0.8674	0.5220	0.2938	0.3643
Czech Rep	(Koruna)	54.4547	32.7695	18.4477	22.8725
Denmark	(Danish Krone)	11.2969	6.7982	3.8271	4.7450
Djibouti Rep	(Djib Fr)	295.326	177.720	100.045	124.048
Dominica	(E Carib $)	4.4867	2.7000	1.5199	1.8846
Dominican Rep	(D Peso)	25.6741	15.4500	8.6974	10.7838
Ecuador	(Sucre)	9160.40o	5512.50	3103.19	3847.63
	(Sucre)	9137.14m	5498.50	3095.31	3837.88
Egypt	(Egyptian £)	5.7206	3.4425	1.9379	2.4028
El Salvador	(Colon)	14.5486	8.7550	4.9285	6.1108
Equat'l Guinea	(CFA Fr)	989.660	595.550	335.266	415.684
Estonia	(Kroon)	23.6248	14.2168	8.0034	9.9231
Ethiopia	(Ethiopian Birr)	11.6123	6.9880	3.9338	4.8775
Falkland Is	(Falk £)	1	0.6018	0.3388	0.4200
Faroe Is	(Danish Krone)	11.2969	6.7982	3.8271	4.7450
Fiji Is	(Fiji $)	3.5170	2.1165	1.1914	1.4773
Finland	(Markka)	8.9872	5.4083	3.0446	3.7749
France	(Fr)	9.8966	5.9555	3.3527	4.1568
Fr Cty/Africa	(CFA Fr)	989.660	595.550	335.266	415.684
Fr Guiana	(Local Fr)	9.8966	5.9555	3.3527	4.1568
Fr. Pacific Is	(CFP Fr)	181.357	109.136	61.4366	76.1751
Gabon	(CFA Fr)	989.660	595.550	335.266	415.684
Gambia	(Dalasi)	16.9499	10.2000	5.7420	7.1194
Germany	(D-Mark)	2.9519	1.7764	1	1.2399
Ghana	(Cedi)	3863.57	2325.00	1308.86	1622.81
Gibraltar	(Gib £)	1	0.6018	0.3388	0.4200
Greece	(Drachma)	506.377	304.725	171.546	212.693
Greenland	(Danish Krone)	11.2969	6.7982	3.8271	4.7450
Grenada	(E Carib $)	4.4867	2.7000	1.5199	1.8846
Guadeloupe	(French Fr)	9.8966	5.9555	3.3527	4.1568
Guam	(US $)	1.6618	1	0.5630	0.6980
Guatemala	(Quetzal)	10.6282	6.3958	3.6004	4.4642
Guinea	(Fr)	2065.56	1243.00	699.730	867.593
Guinea-Bissau	(CFA Fr)(3)	989.660	595.550	335.266	415.684
Guyana	(Guyanese $)	253.085	152.300	85.7382	106.303
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK $)	12.8762	7.7486	4.3627	5.4092
Hungary	(Forint)	373.628	224.840	126.574	156.935
Iceland	(Icelandic Krona)	119.646	72.0000	40.5326	50.2548
India	(Indian Rupee)	70.6826	42.5350	23.9452	29.6887
Indonesia	(Rupiah)	18611.6	11200.0	6305.06	7817.41
Iran	(Rial)	4985.25o	3000.00	1688.81	2093.95
Iraq	(Iraqi Dinar)	0.5167o	0.3109	0.1750	0.2170
Iraq	(Iraqi Dinar)	1994.10m	1200.00	675.524	837.579
Irish Rep	(Punt)	1.1760	0.7077	0.3984	0.4939
Israel	(Shekel)	6.4203	3.8636	2.1750	2.6967
Italy	(Lira)	2917.12	1755.45	988.234	1225.27
Jamaica	(Jamaican $)	59.5738	35.8500	20.1813	25.0227
Japan	(Yen)	238.079	143.270	80.6542	100
Jordan	(Jordanian Dinar)	1.1832	0.7120	0.4008	0.4970
Kazakhstan	(Tenge)	131.403	79.0750	44.5142	55.1930
Kenya	(Kenya Shilling)	98.9986	59.5750	33.5379	41.5823
Kiribati	(Australian $)	2.9360	1.7668	0.9946	1.2332
Korea North	(Won)	3.6559	2.2000	1.2385	1.5356
Korea South	(Won)	2220.93	1336.50	752.386	932.854
Kuwait	(Kuwaiti Dinar)	0.5110	0.3075	0.1731	0.2146
Laos	(New Kip)	4323.88	2602.00	1464.76	1816.15
Latvia	(Lats)	1.0083	0.6068	0.3416	0.4235
Lebanon	(Lebanese £)	2526.69	1520.50	855.969	1061.28
Lesotho	(Maluti)	10.7516	6.4700	3.6423	4.5159
Liberia	(Liberian $)	1.6618	1	0.5630	0.6980
Libya	(Libyan Dinar)	0.6410	0.3857	0.2171	0.2692
Liechtenstein	(Swiss Fr)	2.4246	1.4591	0.8214	1.0184
Lithuania	(Litas)	6.6474	4.0003	2.2519	2.7921
Luxembourg	(Lux Fr)	60.9015	36.6490	20.6316	25.5804
Macao	(Pataca)	13.3018	8.0047	4.5061	5.5872
Macedonia	(Denar)	92.9864	55.9569	31.5002	39.0570
Madagascar	(MG Fr)	9098.66	5475.00	3082.08	3821.46
Madeira	(Port Escudo)	303.145	182.425	102.697	127.330
Malawi	(Kwacha)	68.9627	41.5000	23.3619	28.9663
Malaysia	(Ringgit)	6.9794	4.2000	2.3644	2.9315
Maldive Is	(Rufiya)	19.5586	11.7700	6.6258	8.2153
Mali Rep	(CFA Fr)	989.660	595.550	335.266	415.684
Malta	(Maltese Lira)	0.6485	0.3909	0.2200	0.2728
Martinique	(Local Fr)	9.8966	5.9555	3.3527	4.1568
Mauritania	(Ouguiya)	336.413	202.445	113.967	141.303
Mauritius	(Maur Rupee)	40.7711	24.5350	13.8120	17.1250
Mexico	(Mexican Peso)	16.6591	10.0250	5.6436	6.9973
Moldova	(Leu)	7.9677	4.7946	2.6991	3.3467
Monaco	(French Fr)	9.8966	5.9555	3.3527	4.1568
Mongolia	(Tugrik)	1358.66	817.610	460.262	570.678
Montserrat	(E Carib $)	4.4867	2.7000	1.5199	1.8846
Morocco	(Dirham)	16.0626	9.6662	5.4415	6.7468
Mozambique	(Metical)	19101.6	11495.0	6470.95	8023.31
Namibia	(S A Rand)	10.7516	6.4700	3.6423	4.5159
Nauru Is	(Australian $)	2.9360	1.7668	0.9946	1.2332
Nepal	(Nepalese Rupee)	113.547	68.3300	38.4654	47.6932
Netherlands	(Guilder)	3.3301	2.0040	1.1281	1.3987
N'nd Antilles	(A/Guilder)	2.9746	1.7900	1.0077	1.2494
New Zealand	(NZ $)	3.3707	2.0284	1.1419	1.4158
Nicaragua	(Gold Cordoba)	17.8472	10.7400	6.0459	7.4963
Niger Rep	(CFA Fr)	989.660	595.550	335.266	415.684
Nigeria	(Naira)	36.3691o	21.8860	12.3204	15.2761
	(Naira)	148.544m	89.3900	50.3223	62.3927
Norway	(Nor. Krone)	13.2304	7.9617	4.4821	5.5571
Oman	(Rial Omani)	0.6401	0.3852	0.2168	0.2688
Pakistan	(Pak. Rupee)(4)	83.1831	50.0575	28.1800	34.9393
Panama	(Balboa)	1.6618	1	0.5630	0.6980
Papua New Guinea	(Kina)	3.8208	2.2992	1.2943	1.6048
Paraguay	(Guarani)	4686.14	2820.00	1587.48	1968.31
Peru	(New Sol)	5.0085	3.0140	1.6967	2.1037
Philippines	(Peso)	73.4494	44.2000	24.8825	30.8506
Pitcairn Is	(£ Sterling)	1	0.6018	0.3388	0.4200
	(NZ $)	3.3707	2.0284	1.1419	1.4158
Poland	(Zloty)	6.3230	3.8050	2.1420	2.6558
Portugal	(Escudo)	303.145	182.425	102.697	127.330
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reunion Is. de la	(F Fr)	9.8966	5.9555	3.3527	4.1568
Romania	(Leu)	14822.8	8920.00	5021.53	6226.01
Russia	(Rouble)(5)	19.1103m	11.5000	6.4738	8.0268
Rwanda	(Fr)	519.131	312.400	175.867	218.050
St Christopher	(E Carib $)	4.4867	2.7000	1.5199	1.8846
St Helena	(£)	1	0.6018	0.3388	0.4200
St Lucia	(E Carib $)	4.4867	2.7000	1.5199	1.8846
St Pierre & Miquelon	(F Fr)	9.8966	5.9555	3.3527	4.1568
St Vincent	(E Carib $)	4.4867	2.7000	1.5199	1.8846
San Marino	(Italian Lira)	2917.12	1755.45	988.234	1225.27
Sao Tome	(Dobra)	3971.58	2390.00	1345.42	1668.18
Saudi Arabia	(Riyal)	6.2424	3.7565	2.1147	2.6220
Senegal	(CFA Fr)	989.660	595.550	335.266	415.684
Seychelles	(Rupee)	8.7090	5.2350	2.9808	3.6856
Sierra Leone	(Leone)	2575.71	1550.00	872.551	1081.87
Singapore	($)	2.9554	1.7785	1.0012	1.2414
Slovakia	(Koruna)	59.0885	35.5580	20.0175	24.8189
Slovenia	(Tolar)	279.944	168.464	94.8369	117.586
Solomon Is	($)	7.9712	4.7969	2.7003	3.3481
Somali Rep	(Shilling)	4353.79	2620.00	1474.89	1828.72
South Africa	(Rand)	10.7516	6.4700	3.6423	4.5159
Spain	(Peseta)	251.672	151.450	85.2591	105.710
Spanish Ports in N Africa	(Sp Peseta)	251.672	151.450	85.2591	105.710
Sri Lanka	(Rupee)	116.340	66.4000	37.3800	48.3451
Sudan Rep	(Dinar)	303.436	182.600	102.792	127.452
Surinam	(Guilder)	666.362	401.000	225.738	279.891
Swaziland	(Lilangeni)	10.7516	6.4700	3.6423	4.5159
Sweden	(Krona)	13.5283	8.1416	4.5833	5.6827
Switzerland	(Fr)	2.4246	1.4591	0.8214	1.0184
Syria	(£)	66.4700	40.0000	22.5176	27.9193
Taiwan	($)	57.8705	34.8250	19.6048	24.3073
Tanzania	(Shilling)	1088.45	655.000	368.731	457.179
Thailand	(Baht)	70.0013	42.1250	23.7144	29.4025
Togo Rep	(CFA Fr)	989.660	595.550	335.266	415.684
Tonga Is	(Pa'anga)	2.9360	1.7668	0.9946	1.2332
Trinidad/Tobago	($)	10.3727	6.2420	3.5139	4.3568
Tunisia	(Dinar)	1.9022	1.1447	0.6444	0.7990
Turkey	(Lira)	463254.4	278775.0	156937.0	194580.2
Turks & Caicos	(US $)	1.6618	1	0.5630	0.6980
Tuvalu	(Australian $)	2.9360	1.7668	0.9946	1.2332
Uganda	(New Shilling)	2035.64	1225.00	689.597	855.029
Ukraine	(Hryvna)	4.3123	2.5950	1.4608	1.8113
U A E	(Dirham)	6.1041	3.6733	2.0679	2.5639
United Kingdom	(£)	1	0.6018	0.3388	0.4200
United States	(US $)	1.6618	1	0.5630	0.6980
Uruguay	(Peso Uruguayo)	17.7891	10.7050	6.0262	7.4719
Uzbekistan	(Sum)	465.290	280.000	157.622	195.435
Vanuatu	(Vatu)	222.675	134.000	75.4358	93.5297
Vatican	(Lira)	2917.12	1755.45	988.234	1225.27
Venezuela	(Bolivar)	964.646v	580.500	326.794	405.179
Vietnam	(Dong)	23110.8	13907.5	7829.04	9707.29
Virgin Is–British	(US $)	1.6618	1	0.5630	0.6980
Virgin Is–US	(US $)	1.6618	1	0.5630	0.6980
Western Samoa	(Tala)	5.2636	3.1675	1.7831	2.2109
Yemen (Rep of)	(Rial)	217.673r	130.990	73.7380	91.4286
Yugoslavia	(New Dinar)	17.9999	10.8318	6.0977	7.5665
Zambia	(Kwacha)	3311.05	1992.50	1121.68	1390.79
Zimbabwe	($)	44.0367	26.5000	14.9182	18.4965
ECU	(ECU)	1.4965	0.8999	0.5066	0.6281
SDR	(SDR)	1.24238	0.753889	0.417240	0.524431

Abbreviations: (a) Free rate, (m) Market rate (o) Official rate, (r) Parallel rate (t) Tourist rate (e) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs (3) Guinea-Bissau adopted the CFA Franc to replace the Peso on 1/5/97 (4) Pakistan Rupee devalued by 8% on 16/10/97 (5) Rouble rebased on 1/1/98. FT enquiries to Business Research Centre 0171 256 5130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0991 437001. Calls are charged at 50p per minute at all times. Friday, August 28, 1998